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## PROGRESSIVE TAXATION IN THEORY AND PRACTICE.

### INTRODUCTION.

The question of proportional *versus* progressive taxation has not been settled in either theory or practice. A survey of the history of taxation will show repeated attempts made to introduce the progressive principle, from the early legislation of Solon down to the present time. If we confine ourselves to the nineteenth century we shall find, indeed, that the general sentiment in many places is in favor of proportional taxation, but that on the other hand almost every country has to some extent introduced the progressive principle into its tax system. This is true not only in monarchies like those of continental Europe and Japan, but in democracies like those of America, Australia and Switzerland. To give a few instances: we find progressive income taxes in most of the German states, Austria, Sweden, Denmark, Holland and Belgium as well as in Switzerland; progressive rental taxes in France and Australia; progressive property taxes in Switzerland, Holland and Australia; and progressive inheritance taxes in France, Germany, England, Switzerland, Australia, Canada and elsewhere. Even in the United States, which is supposed to be *par excellence* the home of proportional taxation, we have had a progressive property tax, like the federalist house tax, and some decidedly progressive income taxes, both national and local; and we still have progressive income taxes, progressive inheritance taxes, and progressive land taxes. It is hence idle to claim that proportional taxation is the

rule: on the contrary, practice seems to be tending more and more to the partial or complete adoption of the progressive principle. It may be useful, therefore, to pass in review not only the facts of the case, but the arguments on both sides in order to ascertain how, if at all, agreement may be secured. This discussion seems all the more necessary because no comprehensive attempt to present either the facts or the views of the chief representatives of the different schools has yet been made.<sup>1</sup>

A word first as to nomenclature. In a certain sense the distinction between proportional and progressive taxation is illogical, for progression is also a kind of proportion. In the one case the tax may increase by a proportionate increment of the tax, the rate remaining the same; in the other case the tax may increase by a proportionate increment of the rate, the rate changing *pari passu* with the amount. In both cases we have a proportion, although the results of the proportion are very different. Strictly

<sup>1</sup> There is one essay on the history of the theory by Lehr, "Kritische Bemerkungen zu den wichtigeren für und wider den progressiven Steuerfuss vorgebrachten Gründen," in *Jahrbücher für Nationalökonomie und Statistik*, vol. 29 (1877), pp. 1 and 190. But Lehr's essay is confused and not very critical. Moreover it is composed chiefly of long extracts from the German and a very few of the French authors, almost entirely disregarding all other countries. Finally it is antiquated, because most of the valuable discussion has taken place in the last generation.—The best book on the facts is Neumann, *Die progressive Einkommensteuer im Staats- und Gemeinde-Haushalt*, 1874. As the title indicates, this study is confined to the income tax. It, also, is antiquated.

Since the present work was originally published, a young Italian, Masè-Dari, has written a book of over 700 pages under the title of *La Imposta Progressiva, Indagini di Storia e d'Economia della Finanza*, 1897. Excellent as is the work in many respects, it is unnecessarily elaborate, and is replete with all manner of discussions which have only the slightest connection with progressive taxation. Cf. also the two essays of Max Grabein, "Beiträge zur Geschichte der Lehre von der Steuerprogression" in *Finanz Archiv*, vol. xii (1895), and vol. xiii (1896).

speaking, therefore, the distinction ought to be drawn, not between proportion and progression, but between two kinds of proportion—regular proportion and progressive proportion. Again, the progression, if we adopt the term, may itself be either proportional or progressive: a proportional progression being an increase of the rate at an arithmetical ratio, a progressive progression being an increase at a geometrical ratio.

Passing by these rather subtle objections, however, and accepting the commonly received distinction as sufficiently obvious for all practical purposes, let us see what is really meant by progressive taxation.

A tax may be said to be proportional when the mathematical relation between the amount of the tax and that of the thing taxed remains the same. A tax is progressive when the relation varies in such a way that, as the amount taxed itself increases, the tax will represent a continually larger fraction of that amount. Ordinarily this means that the rate increases with the amount taxed. This is, however, not necessarily the case. For the rate may remain the same, while the change in the relation may be effected by an alteration in the amount assessed; that is, by applying the same rate of tax to a continually smaller increment of the thing taxed. Practically, of course, the result is identical; for if we start with a given rate and a given amount, the same rate on a smaller amount is equivalent to a higher rate on the same amount.

The term commonly employed in England is graduated taxation. This is misleading. If a tax is graduated in lieu of being proportional, the graduation may be either upward or downward. Proportional taxation in the ordinarily accepted signification means the same rate on all quantities of the thing taxed, whether this consists of property or of income or of anything else; graduated

taxation may mean that the rate either decreases or increases as the amount of property or of income increases. When the rate increases with the amount of the income, for instance, we have progressive taxation; and that is what the English writers generally mean by graduated taxation. But when the rate decreases as the income increases, the tax is also graduated. The technical term for such taxation is regressive taxation—what the French call upside-down progressive taxation (*progression à rebours*).<sup>2</sup> Graduated taxation in the wider sense thus includes both progressive and regressive taxation.

Finally, a third method is possible. The tax rate may increase up to a certain amount, but remain constant beyond that fixed point. There may be progression up to a definite limit, and proportion thereafter. The usual term for this is degressive taxation.<sup>3</sup> The proportional rate is regarded as the normal one, but on all sums counted downward below this limit the tax rate gradually diminishes. Degrессive taxation is also graduated taxation, and one of its most common forms.

Whether we call the tax progressive or degressive depends entirely on the point from which we count up or down; for even in progressive taxes the progression everywhere stops at a certain limit. The highest point known to history as actually enforced is thirty-seven and a half per cent. It could not conceivably exceed one hundred per cent. Nevertheless from one point of view the distinction between progression and degression is tenable. In de-

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<sup>2</sup> Buckingham, *National Evils and Practical Remedies*, 1849, p. 338, speaks of a tax being "graduated the wrong way."

<sup>3</sup> The term "progressional tax," used in a somewhat similar sense, is due to Joseph Garnier. It has not been generally adopted, and does not mean exactly the same thing as a degressive tax. It might best be translated as a moderate and limited progressive tax, as we shall see when we discuss Garnier below.

gression the ideal is proportional taxation, although a concession is made, through lower rates or exemptions or abatements, to the poorest classes who ought theoretically to pay the same rate but who are deemed to be unable to do so. In progression, the ideal is not proportional taxation: the wealthier classes pay higher rates because, according to the theory, they ought to assume a more than proportional burden. In progressive taxation graduation ordinarily begins from the point at which in the case of degressive taxation graduation stops and proportion begins. Nevertheless this precise point at which graduation commences is somewhat arbitrary. What one person would call degressive taxation another would call progressive taxation.<sup>4</sup> While degressive and progressive tax-rates, however, have much in common, and are really two different ways of expressing what is essentially the same idea, degressive and regressive tax-rates are, in one sense, as we have seen, the very opposites of each other.

The terms "progressive tax" or "graduated tax" are also used in another way. If a different rate is levied on different kinds (not different amounts) of property or income, we speak not of a graduation but of a differentiation of the tax. But if different rates are levied on inheritances or bequests according to the degree of relationship of the heir or successor, the tax is sometimes called a "graduated" or "progressive" tax. In ordinary cases progression denotes a changed rate for altered amounts;

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<sup>4</sup> Ely, *Taxation in American States*, p. 77, uses the term "digressive," which is obviously a misprint. His explanation, however, like that of Daniels, *Public Finance*, p. 89, is inadequate. We have degressive taxes not only when a certain amount is entirely exempted, as we are told, but also when the smaller amounts below a moderate limit are taxed at a lower rate. The statement of Bastable, *Public Finance*, p. 292, is also inexact. In the 3rd ed. (1903), p. 316, the inexactness of the statement is only partly remedied.

in this case it denotes changed rates for the same amounts going to different persons. In the remainder of the present monograph the term will be employed in conformity with the ordinary usage which has come to apply to the collateral inheritance taxes of this kind the designation of graduated taxation.

The question of progressive taxation is not confined to the income tax. We may have progression in other direct taxes like the property tax, the house tax, the land tax, and the inheritance tax. There may even be progression in indirect taxes, and that, too, in a double sense. In the first place, the rates of certain imposts like stamp taxes, business taxes, or taxes on commodities may increase with criteria like the amount of the transaction, or sales, or capital, or capacity or production.<sup>5</sup> Secondly, the progressive principle may be introduced into the general tax scheme by an arrangement in virtue of which articles of luxury are taxed at increasingly greater rates than articles of comfort or necessity.<sup>6</sup> The discussion, however, has been limited almost entirely to direct taxation, and usually even to the income tax. There is no good reason why this

<sup>5</sup> This is the sense in which progression is used by Josef Dierschke, *Progressive Besteuerung des Grossbetriebes bei einigen Verbrauchssteuern*, 1903, and Clément Charpentier, *La Progression dans les Impôts Indirects en Allemagne*, 1908, in which the so-called "Staffelsteuern" are studied. For these, see below, Part I, § 7.

<sup>6</sup> This idea has been elaborately set forth recently by Franz Graf, *Das Problem der Luxussteuern*, 1905. Dr. Graf bases his contention on the principle that taxes on luxuries "würden den Progressionsgedanken, wenn auch nicht tadellos nach den finanzwissenschaftlichen Regeln, so doch in der Hauptsache, nachdrücklich zur Geltung bringen." *Op. cit.*, p. 25. In a very ingenious work by a French engineer, Louis-Léger Vauthier, *De l' Impôt Progressif, Étude sur l' Application de ce Mode de Prélèvement à un Impôt quelconque*, 1851, an attempt is made to show how the progressive principle may be logically and "arithmetically" applied to any kind of tax. See esp. chap. 6, and the formulas, pp. 87-91.

should be the case. In the following pages we shall treat of progression in general, taking up first the history and the actual condition of progressive taxation; secondly, the theory of progression in its historical and positive aspects; and finally the applicability of progression to the conditions as they exist in the United States at the present time.



**PART I.**  
**THE HISTORY OF PROGRESSIVE  
TAXATION.**



### § I. *Classic Antiquity.*

The earliest example of progressive taxation of which we have any knowledge is found in Athens. The facts are, however, not entirely beyond dispute. The direct tax (*ειφορά*) as levied in the time of Solon (B. C. 596) was a tax on property chiefly in the form of land, and was levied on the basis of the produce.<sup>1</sup> The population was divided into four classes (*τιμήματα*), as follows:

1. The *Pentakosiomedimni*, or those whose produce was valued at five hundred measures of dry products (medimnus) or liquid products (metrete).
2. The Knights (*ἱππῆς*), or those who produced three hundred measures and could support a horse.
3. The *Zeugitae*, or owners of a yoke of cattle, who produced two hundred (or, according to others, one hundred and fifty) measures.
4. The *Thetes*, who produced less than the above.

Solon's design seems to have been to estimate the net produce of land at one-twelfth of the property. Reckoning a measure of produce as worth one drachma (about 17½ cents), the property of a *Pentakosiomedimnus* was assessed at a talent, *i. e.*, twelve times 500 measures or 6,000 drachmas. According to the same calculation the value of a knight's property should have been fixed at

<sup>1</sup> Cf. Boeckh, *Public Economy of the Athenians*, book iv, chap. 5 (pp. 639-665 of the American translation, or vol. ii, pp. 25 *et seq.*, of the London edition of 1828). For Beloch's interpretation, which is somewhat different, see his article "Das Volksvermögen von Attika" in *Hermes*, vol. xx, 1885, pp. 237 *et seq.* Lécrivain also thinks that this is merely an hypothesis. See his article *ειφορά* in Daremburg and Saglio, *Dictionnaire des Antiquités Grecques et Romains*, 1887. Cf. also P. Guiraud, *Etudes Économiques sur l'Antiquité*, 2 ed., 1905, pp. 77-79.

twelve times 300 measures or 3,600 drachmas, and that of the next class at twelve times 150 measures or 1,800 drachmas. The progressive (or degressive) principle, however, was introduced by assessing the property of the knights at only 3,000 drachmas, and that of the *Zeugitae* at only 1,000 drachmas, while the lowest class was entirely exempted. In other words, instead of changing the rate of the tax, a modification was made in the assessable portion of the property. The highest class was assessed at the full valuation of the property; in the second class the appraised valuation was fixed at five-sixths of the value of the property; while in the third class only five-ninths of the property was assessed. The rate remained the same, but the ratable valuation changed. The tax, therefore, was graduated.

The next account of the tax that has come down to us is during the archonship of Nausinus (B. C. 380), although the tax may have been levied occasionally in the interval. By this time the property assessed included not only real estate but personality. There were still four classes, but with no exemption for the lowest class and with a graduation in the tax. While there is some doubt as to the exact figures, it seems probable that the tax was now a progressive income tax. The rate was one per cent on the lowest class, composed of all those with an income below 25 minas (about \$427); five per cent on the second class, with incomes from 25 to 50 minas; ten per cent on the third class, with incomes from 50 to 100 minas; and twenty per cent on the fourth class, with incomes above 100 minas.<sup>2</sup> We possess no further details

<sup>2</sup>This is the explanation given by Rodbertus, "Untersuchungen zur Geschichte der römischen Tributsteuer seit Augustus," in Hildebrand's *Jahrbücher für National-Oekonomie und Statistik*, Band viii (1867), pp. 453 *et seq.* Although the figures are somewhat arbitrary, his explanation is preferable to the very involved interpreta-

of its workings.

In Rome, during the republic as well as the empire, nothing is known of any form of progression.<sup>8</sup> Direct taxation played a very small rôle in the fiscal economy, and there is no evidence to show that a graduation of the tax was ever attempted. We must remember, moreover, that in Greece, as well as in Rome, direct taxes were levied only as a last resort and in the most extraordinary exigencies.

tion of Boeckh, who calls the tax "not a pure income tax, but, as it were, composed of a property and income tax," without clearly explaining the connection. *Public Economy of the Athenians*, p. 669. Parieu, *Traité des Impôts*, i, p. 416, who gives an account of this tax based on Boeckh's explanation, wrote before Rodbertus had published his investigations.

<sup>8</sup> M. G. Platon has written a book to show the alleged "clearly progressive nature of the public revenues" in classic antiquity. See his *La Démocratie et le Régime Fiscal à Athènes, à Rome et de nos Jours*, 1899, esp. pp. 210-211. When his so-called facts, however, come to be examined, they will be found to vanish into thin air. The articles originally appeared in the Socialist periodical, *Devenir Social*.

## § 2. *The Middle Ages.*

With the growth of direct taxation in the middle ages we find several examples of progression, due in great part to the growth of the democratic spirit. It is hence natural that the chief mediæval progressive taxes should originate and develop in the towns and communes where the democratic spirit asserted itself most vigorously. It is true, indeed, that there are a few isolated examples of a progressive scale in the general state taxes. These were, however, in the main, class taxes or classified poll taxes, where the upper classes were made to bear the higher charges on the humanitarian principle of "le fort portant le faible," as it is expressed in the French and English laws, or as the Latin ordinance of 1367 reads: "ita quod pauperes per divites supportentur." In France we find this especially in the case of the *fouages*. A *fouage* was a tax or *taille* assessed on the *feux* or hearths, *feu* meaning a family or number of persons living under the same roof. A survival of this is the Sicilian *focatico*, which created so much disorder only a few years ago. The tax was originally so much per *feu* or family. This, however, became manifestly unjust in proportion as the property of the different families began to vary considerably. Thus the custom arose of levying the tax at different rates. Not only were the townsmen assessed at a higher sum than the peasants, but the rate imposed on different individuals was graded. Unfortunately the assessors generally inverted the legal principle and made the poor pay higher rates than the rich.<sup>1</sup>

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<sup>1</sup> Clamageran, *Histoire de l'impôt en France*, 1867, i, p. 402.

Based in part on these French laws were the English graduated poll tax of 1379 (in which the tax ranged from 4*d.* to £6, 13*s.* 4*d.*), and the poll tax of 1380 (which ranged from 2*d.* to 20*s.*).<sup>2</sup> The rates of the tax of 1379 were repeated in 1513, and slightly increased in 1614;<sup>3</sup> while the same principle was applied at occasional intervals during the seventeenth century,<sup>4</sup> the last instance of the classified poll tax being in 1698. In practice, however, the poll taxes were levied chiefly on the poor. They never became a part of the regular revenue in England, as they did in France.

In the mediæval property and income taxes, the progressive scale is likewise occasionally found. Thus the French *cinquantième*, or fiftieth, of 1295 was in part graduated. It was a combination of a property and an income tax. All persons having less than one hundred *sols* property paid a tax on their income from wages. On yearly wages the tax was a day's wage or one three hundred and sixty-fifth; on monthly or daily wages, the tax was fixed at six *deniers*. On property up to ten *livres* the rate of the tax was one-half of one per cent; from ten to one thousand *livres* the rate was two per cent, or a fiftieth (whence the name); while above one thousand *livres* the tax was fixed at twenty *livres*.<sup>5</sup> It was thus a somewhat singular combination of degressive, proportional and fixed taxation. The tax was again levied in 1297 and 1301.

In England we find some sporadic examples of such property and income taxes. Thus in 1435 a graduated income tax was levied in three classes, the rates being 6*d.*,

<sup>2</sup> Dowell, *A History of Taxation and Taxes in England*, 2nd ed., 1888, i, p. 94.

<sup>3</sup> *Ibid.*, i, pp. 129, 161.

<sup>4</sup> In 1660, 1666, 1677 and 1689-1698. *Ibid.*, ii, pp. 29, 45.

<sup>5</sup> Clamageran, *Histoire de l'Impôt en France*, i, p. 314.

8d. and 2s. in the pound respectively, according as the yearly income was below £100, between £100 and £400, or above £400, incomes below £5 being exempt. That is, the rates were two and a half, three and a third, and ten per cent.<sup>6</sup> In 1449-1450 the tax was repeated, with slight changes, the rates now being two and a half, five, and ten per cent, respectively, with the limit of exemption reduced to £1.<sup>7</sup>

In the mediæval German empire progressive general property taxes are also occasionally found, as for instance in the case of the *Reichsabschied* of 1512, when a progressive tax was imposed in order that "the poor should not be so grievously burdened."<sup>8</sup>

On the other hand, the general state taxes were sometimes regressive, instead of progressive. Thus the French ordinance of 1356 provided for a subsidy on incomes from real estate, salaries and mortgages. The rate was for all revenues above 100 *livres*, four *livres* for the first 100 and two *livres* for each succeeding 100 *livres*; between 40 and 100, two *livres*; between one and ten *livres*, one *livre*.<sup>9</sup> That is to say, if we take the lower figures in each class the rate would be ten per cent for 10 *livres*, five per cent for 40 *livres*, four per cent for 100 *livres*, and two per cent above 100 *livres*. Moreover, the richer classes were exempt on all income above 1,000 or 5,000 *livres*, according as they were composed of non-nobles or nobles. So again in the next year a similar subsidy was granted with a rate of four per cent on revenues up to 100 *livres*, and two per cent on revenues exceeding that

<sup>6</sup> Dowell, *op. cit.*, i, p. 113.

<sup>7</sup> *Ibid.*, i, p. 116.

<sup>8</sup> "Damit der Arme nicht so hochbeschwert und dem Reichen auch aufgesetzt werde, das er tragen möge," Judeich, *Die Rentensteuer im Königreiche Sachsen*, 1857, p. 6.

<sup>9</sup> Clamageran, *op. cit.*, i, p. 368.

amount.<sup>10</sup> Similarly in England Henry VIII levied an income tax on the regressive principle. Incomes were divided into four classes, £1-5, £5-10, £10-20 and over £20. The rates were in the case of movables 4d., 8d., 1s. 4d. and 2s respectively; in the case of immovables 8d., 1s. 4d., 2s. and 3s. respectively.<sup>11</sup>

Progressive taxation was thus by no means a distinguishing feature of the general state taxation. Political and economic relations were dominated by the feudal system, and the feudal system was essentially aristocratic in its nature. The financial conditions, as a reflex of the economic situation, necessarily had an aristocratic imprint.

In the communes and towns on the other hand there was more play for the democratic movement. At first when property was fairly equal, the ideal of justice seemed to be a proportional general property tax, which is found almost universally in England as well as on the continent, whenever resort was taken to extraordinary sources of revenue.<sup>12</sup> In several towns, however, a somewhat deeper analysis was made of the underlying principle, and the general property tax, instead of being progressive, was made regressive up to a certain point. The explanation of this phenomenon is not difficult. Individual faculty or ability to pay taxes was supposed to be in some manner determined by income. Property obviously yielded one kind of income—funded or unearned income as it is called in modern times. But income from labor—earned or unfunded income in the modern parlance—was also deemed to constitute a portion of taxable

<sup>10</sup> Clamageran, *op. cit.*, i, p. 367.

<sup>11</sup> Vocke, *Geschichte der Steuern des britischen Reichs*, 1866, p. 510. Dowell does not mention this tax.

<sup>12</sup> See Seligman, *Essays in Taxation*, 5th ed., 1905, ch. v.

faculty. Many towns hence added to the general property tax a tax on the income from labor. That, as we know, was the method transplanted from Europe to the New England colonies. Other towns, however, sought to attain the same result in another way. It was assumed—and under the conditions of the time the assumption was roughly accurate—that the smaller the income from property the greater the income from labor; or in other words that the minor burghers who worked for their living would possess little, if any, property, and that up to a certain point the more property a man had, the less likely he would be to resort to manual labor. Hence, in the absence of an income tax, it would be necessary to assess the smaller property at a slightly higher rate than the larger property; for the higher rate on the smaller property would represent a property tax plus a labor-income tax, while in the case of the larger property the rate would represent simply a property tax. In this way it was thought that a rough proportion would be attained.

The best example of this method of taxation is found in the mediæval German towns. In Basel, whose financial history has been elaborately investigated, we find that the extraordinary property taxes were levied on this principle. In 1429, for instance, a tax was assessed at the general rate of two per cent on the highest member of each class. But on all property below two thousand gulden, the tax was divided into ten classes, the rate rising in each inferior class until in the lowest class (ten gulden and below) the tax was fixed at such an amount that the rate exceeded seventeen per cent on the ten gulden.<sup>18</sup> Of the

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<sup>18</sup> The law fixed, not the rates, but the lump sums payable on each class of property assessed. The rate would thus differ according as the property was at the bottom or the top of the class. The following table will show the rates:

2,536 tax payers only 126, or five per cent, possessed property of over 2,000 gulden, although they paid 32 per cent of the tax; while the tax payers in the two lowest classes, 48.9 per cent of the total number, paid only 10.8 per cent of the tax. Again in 1451 the rate of the property tax was one per cent for the first 100 gulden and one-half of one per cent for every successive 100 gulden, thus constituting a slightly regressive tax.<sup>14</sup> It is not necessary to go into the details of the other instances, as the principle was virtually the same.

In many of the mediæval towns this originally democratic character of the tax was modified by aristocratic and feudal influences; and even the ostensible proportionality of taxation frequently became a real inequality, pressing more heavily on the poorer classes. This was probably true in the great mass of cases. We know that it was a fact in the German towns,<sup>15</sup> as well as in the French communes. In the latter instance this was due not only to the natural proclivities of the assessors, but also to the frequent purchases of exemption from taxation. When

Class	Gulden	Per cent.
1	0- 10.....	1000 -17.1
2	10- 50.....	45 -10
3	50- 100.....	14.7- 7.5
4	100- 150.....	9.9- 6.6
5	150- 300.....	13.2- 6.6
6	300- 500.....	8.3- 5
7	500- 750.....	5.9- 4
8	750- 1000.....	4.6- 3.5
9	1000- 1500.....	3.9- 2.6
10	1500- 2000.....	2.9- 2.2
11	2000- 2500.....	2.4- 2

Cf. Schönberg, *Finanzverhältnisse der Stadt Basel im xiv. und xv. Jahrhundert*, 1879, p. 175.

<sup>14</sup> *Ibid.*, p. 284.

<sup>15</sup> Zeumer, *Die deutschen Städtesteuern im xii. und xiii. Jahrhundert*, 1878, pp. 90, 91.

the history of English local finance comes to be written in detail, the same will probably be found to be the case there. In the provincial income taxes in France during the sixteenth century it was even provided that no one could be held to pay more than a definite sum, no matter how great his fortune. In Lille this limit was fixed at one thousand florins. The wealthier the tax payer, the lower the rate of the tax.<sup>18</sup>

In some places, however, where the differences of wealth became very marked, the democratic spirit asserted itself at times more vigorously. This is especially true of the Italian republics at the period of their great commercial prosperity, when the conditions of the towns resembled those of modern times more closely than at any other period or in any other country. The Italian cities, and especially Florence, are therefore the chief examples of actual progressive taxation in the middle ages.

<sup>18</sup> Houdoy, *L'Impôt sur le Revenu au xvi. siècle.. Les Etats de Lille et le Duc d'Albe*, 1873, chap. iii, p. 345. In the earlier centuries we find occasional examples of progressive taxation in the towns as at Donai in the case of the forced loan of 1302, where in addition to the ordinary rate of ten per cent on movables, an extra tax of two per cent was levied on all property over fifty livres in value. Cf. G. Espinas, *Les Finances de la Commune de Donai des Origines au xv<sup>e</sup> siècle*, 1902, p. 141.

### § 3. *The Italian Republics.*

In Florence, as in the other mediæval towns, the general property tax was employed whenever it became necessary to secure extraordinary revenues. The original property tax or *estimo* was supplanted in 1427 by the *catasto*, which was a tax on the capitalized value of incomes from movables as well as immovables. The capitalization was made at different rates. This is not the place to trace the various steps in the development which finally led to the institution of the *decima* or tenth, a tax on the income from immovables only. What interests us here is not the fortune of the general property tax,<sup>1</sup> but the application of the progressive principle, under the general name of *scala*.

One of the chief reasons for the introduction of progression was the evasion by the wealthy of the proportional tax on personality. It was hoped in this way to make the rich pay at all events their share of the burden, and thus in some sort to re-establish the balance. The Medici eagerly seized upon this democratic reasoning and converted the graduated tax into an engine for ruining their wealthy rivals. What was begun by the Medici, however, was continued by the democratic government which supplanted them.

The progressive rate was first applied to the general property tax or *catasto* in 1443. The tax was known as the *graziosa* or "gracious tax," because so favorable to the lower classes who had hitherto borne the chief bur-

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<sup>1</sup> A history of the Florentine tax will be found in G. Canestrini, *La Scienza e l'Arte di Stato, desunta dagli Atti officiali della Repubblica Fiorentina e dei Medici. Ordinamenti Economici.—Della Finanza.. Parte I, L' Imposta sulla Ricchezza Mobile e Immobile.* Firenze 1862.

den. The "gracious tax" divided the tax payers into fourteen classes, the rate varying from four to thirty-three and a third per cent of the income, which was then capitalized.<sup>2</sup> To this was added a poll tax, likewise in fourteen classes, varying from one to eighty *soldi*. In 1447 the second progressive tax was levied. The number of classes remained the same, but the tax was now levied only on income, and the rates now varied from eight to fifty per cent. This was known as the *decina dispiacente* or "displeasing tax,"<sup>3</sup> and continued at these rates for several years.

In 1480 the *scala* or progressive rate was applied not to the general property or income tax, but to the new tax on income from immovables only. There were now nine classes with rates from seven to twenty-two per cent, and there was joined to this a graduated poll tax. Henceforth the progressive rate was generally applied to all the extraordinary direct taxes, whatever their name or form. Sometimes it was applied to the *catasto* or capitalized general income tax, sometimes and more frequently to the *decima*<sup>4</sup> or income tax on realty, sometimes to both the *catasto* and the *decima* when they were levied simultaneously. All kinds of combinations were made. At

<sup>2</sup> The six classes up to 300 florins were graded by differences of 50 florins; from 300 to 700 florins the steps were 100 florins; then came three additional classes with steps of 300, 200 and 300 florins respectively, until the final class included revenues of 1500 florins and over.—Canestrini, *op. cit.*, p. 217.

<sup>3</sup> It was called *decina* because assessed by ten officials. Sometimes the taxes were assessed by a different number of officials, and they received the names of *ventine*, *novine*, *settine*, etc. *Ibid.*, p. 178. The distinction between a *piacente* and *dispiacente* was as follows: Old assessment rolls were often brought into requisition. When the assessor selected the highest roll, the tax was "displeasing;" when the choice was left to the tax payer, it was "pleasing." *Ibid.*, p. 186.

<sup>4</sup> The *decima* or "tenth" must not be confused with the *decina*, mentioned in the preceding note.

times the rates were definitely fixed according to what was called the *regola* or *norma*; at other times the whole matter was left to the discretion of the assessors and hence known as *l'arbitrio*. In the intervals between the official valuations of the *catasto* the old lists were often taken out and the individual assessments arbitrarily increased or decreased. The tax was then known respectively as *l'aggravio* or *lo sgravo*.<sup>5</sup> Sometimes the rate of progression was high, sometimes it was moderate, sometimes low, according as the whole scale, a half scale, or a third of a scale was adopted.

The history of the Florentine *decima scalata* has been utilized as a warning example of the inherent evils of progressive taxation. It can certainly not be denied that the results were disastrous, that individuals were frequently reduced to beggary, and that forced sales of property in order to pay the taxes were of common occurrence, notwithstanding the fact that as in all early times direct taxes were regarded as compulsory loans to the government, and that the tax payers were inscribed to the extent of the taxes as creditors of the state. M. Léon Say especially waxes eloquent over the abuses of the progressive system.<sup>6</sup> He forgets, however, that the authority from which he takes all his facts expressly states that the fault lay not so much in the graduation as in the frequency and enormous extent, of the tax.<sup>7</sup> Although Canestrini himself does not favor progressive taxation, he is fair-minded enough to say that we must distinguish between the progressive tax under modern conditions and

<sup>5</sup> Canestrini, *op. cit.*, p. 185.

<sup>6</sup> Léon Say, *La Question des Impôts*, 1886, i, chap. 4.

<sup>7</sup> Canestrini, *op. cit.*, p. 204: "Inoltre vuolsi notare che non era precisamente la scala o la progressione dell' imposta che atterriva e rovinava i più ricchi, ma bensì la soverchia frequenza e la intollerabile enorumezza delle imposte."

the abuse of the principle by the Medici in mediæval Florence.<sup>8</sup> In fact we may go further, and say that the real source of the trouble was not the fact of progression at all, but the utter arbitrariness in the whole administration of the direct tax. It was the discretion left to the officials in levying the direct tax on personality and on income which was mainly responsible for the actual abuses. It is perhaps true that the existence of the graduated scale rendered it somewhat easier for the government to ruin its adversaries, and there is no doubt that the rate of progression was at times extravagant. But it is quite erroneous to assume that the proportional rate denoted certainty, while the progressive rate involved uncertainty. In both cases the assessments were entirely arbitrary; and where the assessments are arbitrary there is practically nothing to choose between proportion and progression. The evils of progressive taxation under the later Medici, were no worse than the evils of proportional taxation under their predecessors; the abuses of progressive taxation in Florence were not a whit more glaring than the abuses of proportional taxation under the later Roman emperors.

Even after the expulsion of the Medici the republic, notwithstanding the reaction of the first few years, soon reintroduced the system of progressive taxes under the stress of political complications. The scale of graduation was somewhat reduced and some of the abuses were rectified. We find the *scala* from 1499 to 1506 and again during the troubles of 1529. But with the capitulation of Florence in the next year the system of progressive taxa-

<sup>8</sup> "Il perchè dagli economisti doverebbesi distinguere il principio della scala e la sua applicazione nelle condizioni speciali della Repubblica fiorentina, e l' abuso del principio e della pratica di esso per opera dei Medici, dalla teorica e dalla sua attuazione nelle presenti condizioni sociali e politiche degli Stati." *Ibid.*

tion came to an end, with the exception of a single attempt to reintroduce a modified form of the old system in 1710.<sup>9</sup>

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<sup>9</sup> Canestrini, *op. cit.*, p. 307.

#### § 4. *The Seventeenth and Eighteenth Centuries.*

During the seventeenth century we hear but little of progressive taxation. The scheme was proposed in Spain in 1676, where the industrials of Aragon suggested a progressive class tax to the Cortes of Calatayud.<sup>1</sup> During the eighteenth century, however, the instances become more frequent, until the revolution of 1789, and especially that of 1848, gave the signal for a far more widespread application of the principle during the nineteenth century.

In the first half of the eighteenth century there are to be noted a few examples of progressive taxation levied on extraordinary occasions. Thus in Holland a classified income tax was imposed in 1748, varying from one to two and a half per cent.<sup>2</sup> So in 1742 the Elector Frederick Augustus, of Saxony, established a progressive general income tax, in six classes, with rates varying from one to eight per cent. The tax was so arranged that each increment of the income paid a separate rate according to the class to which that increment belonged.<sup>3</sup> The tax lasted until 1746, and was replaced by a clas-

<sup>1</sup> Colmeiro, *Historia de la Economia Política en España*, 1863, ii, p. 576.

<sup>2</sup> Parieu, *Histoire des Impôts Généraux sur la Propriété et le Revenu*, 1856, p. 88, quoting from Engels, *De Geschiedenis der Belastingen in Nederland*. This tax can be traced back to 1715 when it was imposed with slightly different rates and lasted for a year. It was levied again in 1742, 1745 and 1747. Cf. Sickenga, *Geschiedenis der Nederlandsche Belastingen*, 1878-1883.

<sup>3</sup> For instance an income over 25,000 thalers, the highest class, would pay one per cent for the first 1,000, two per cent for the next 9,000, three per cent for the next 2,000, four per cent for the next 3,000, five per cent for the next 5,000, six per cent for the next 5,000, and eight per cent for the remainder. Judeich, *Die Rentensteuer im Königreiche Sachsen*, p. 12.

sified poll tax. In Geneva, on the other hand, where the extraordinary property tax of 1690 was levied on the progressive principle, graduation was imposed as a permanent system in the *taxe des gardes*, which was first levied in 1709. The rates were one-half of one per cent for the first 10,000 *écus*, and one per cent for the surplus.<sup>4</sup>

During the eighteenth century the principle of progression was applied within somewhat narrow limits to other taxes besides those on income. Thus the tax on inhabited houses in England, introduced by Lord North in 1778, provided for rates of 6*d.* and 1*s.* in the pound respectively, according as the annual value of the house was below or above £50. In 1779 the scale was slightly altered, and the tax was graduated in three classes at 6*d.*, 9*d.* and 1*s.* respectively. Although the three classes were maintained in the following years, the rates were somewhat changed, and in 1808 they were fixed at 1*s.* 6*d.*, 2*s.* 3*d.* and 2*s.* 10*d.* in the pound respectively. Minor alterations were made during the next two decades, until the tax itself was repealed in 1834. When the tax was reimposed in 1850 it was no longer graduated according to rental value but simply classified according to the purpose for which the building was used.<sup>5</sup>

The most important applications, however, of the progressive principle during the eighteenth century are to be found in France, where, during the revolutionary period, several attempts were made to impose a progressive tax.

When the direct income taxes in France were abolished by the Revolution, an effort was made in 1791 to substitute for them a so-called "personal and movables tax," *taxe personnelle et mobilière*, levied in great part on

<sup>4</sup> Schanz, *Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19ten Jahrhunderts*, iv, pp. 195, 196.

<sup>5</sup> Dowell, *History of Taxation and Taxes in England*, iii, pp. 178-192.

the basis of house rent. The rental value was regarded as a rough presumptive index of the occupier's income, on the assumption that the greater the income, the smaller the portion devoted to house rent. In order, therefore, to attain a relatively proportional rate on the actual income, the scale of the rentals tax was made progressive. The rate of the tax was the same in every case—five per cent—but the houses were divided into eighteen classes. In the lowest class, with a rental value of 100 livres or less, the income was assumed to be twice the rental value; in the next class, with rental value to 500 livres, the income was assumed to be three times as great; and so on until in the eighteenth class, comprising rental values of 12,000 livres, the income was assumed to be twelve and a half times as great. In other words, the occupier of a 500 franc apartment paid the five per cent tax on 2,000 francs; the occupier of a 12,000 franc apartment paid the tax on 150,000 francs.<sup>5</sup> The tax, although nominally progressive in character, was supposed to conform to the principle of real proportionality; it was progressive in relation to house rent, but proportional to real income, since expenditures for house rent grow, up to a certain point, faster than does income. This is brought out clearly in the report of Representative De Fermond, who first suggested it.<sup>6</sup> The tax itself worked rather badly and was suspended in the year III.

<sup>5</sup> Stourm, *Les Finances de l'Ancien Régime et la Révolution*, i, (1886), p. 250.

<sup>6</sup> "Le tarif présente à raison de la différence des loyers, une progression croissante; progression que nous croyons indispensable, parce qu'il est reconnu que le pauvre prélève sur son revenu une somme plus forte pour la dépense de son loyer, et, comme c'est sur le revenu que l'imposition doit porter, il est nécessaire pour la rendre toujours proportionnelle au revenu, qu'en prenant pour base de l'indication des facultés une nature de dépense qui est d'autant plus forte que le revenu est plus faible, la progression du taux

This French tax served in part as the model of the progressive direct tax imposed by the federal government of the United States in 1798. Secretary Wolcott's plan for the direct tax comprised three taxes: on dwelling-houses, on slaves and on lands. He proposed in the case of houses a progressive tax with a fixed rate for each class of houses.<sup>7</sup> Hamilton's project was a progressive tax, graduated according to the number of the rooms. The scheme finally adopted was due to Gallatin, who suggested a progressive tax graded according to market value. The tax, however, differed from the French tax of 1791 in that the progression attached not to the coefficient, but to the rate itself. That is, the houses were divided into nine classes, the lowest class comprising houses of the value of from \$100 to \$500, and the upper limit of each succeeding class being 1, 3, 6, 10, 15, 20, and 30 thousand dollars selling value. The rate of the tax varied from two to ten per mill respectively. This was the only progressive tax ever levied by the United States government until the period of the Civil War.

The French rentals tax was therefore an instance of ostensible, rather than of real progression. It was not long, however, before this experiment was followed by examples of actual progression. This forms so interesting and important a phase in the history of the subject that we shall deal with it in a separate section.

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de l'imposition soit en raison inverse du rapport de cette nature de dépense avec le revenu sur lequel elle est prélevée."—Gomel, *Histoire Financière de l'Assemblée Constituante*, ii (1897), p. 336. This is also the view of Mathieu-Bodet, *Les Finances Françaises de 1770 à 1798*, ii, p. 72. M. Stourm, however, considers it a progressive tax. *Op. cit.*, p. 252.

<sup>7</sup> Cf. the plan in *American State Papers, Finance*, i, p. 589. Hamilton's plan will be found in his works (Ford's edition), iii, p. 53. The plan actually adopted was that of the act of July 14th, 1798.

### § 5. *The French Revolution.*

With the progress of the Revolution, the radical sentiment grew stronger, and under the Convention various efforts were made to realize the progressive principle.<sup>1</sup>

The first was at the close of 1792. The various towns had issued paper currency known as "Billets de Confiance," which were now made unnecessary by the new national "Assignats". A law of November 8, 1792, provided that this municipal paper issue be redeemed through the proceeds of loans or taxes. Cambon, who brought in the Committee report, declared that the taxes ought to be progressive and that the principle should be to tax "le citoyen riche infiniment plus que celui qui n'a qu'une fortune mediocre." He based his contention on the ground that the chief advantages of these paper issues had accrued to the rich. Another reason, not so openly avowed, was that the depreciation of the paper issues was laid at the door of the anti-revolutionary wealthy class. A few weeks later the principle was applied to Paris, which redeemed its issue by levying an impost supplementary to the land tax and the movables tax (*contributions foncière et mobilière*), according to a progressive scale ranging from 1/300th to 1/60th of the tax payers' income.<sup>2</sup> On the same date a somewhat similar tax was

<sup>1</sup> Cf. two essays by C. H. Gomel, one entitled "L'Impôt Progressif et l'Impôt Arbitraire en 1793," in the *Journal des Economistes*, tome 50 (1902), pp. 1 and 161; the other entitled "Les Taxes Révolutionnaires sous la Convention," in *Séances et Travaux de l'Académie des Sciences Morales et Politiques*, 65e Année, nouv. Série, vol. 64 (1905), pp. 59-80. The article by Stourm, "La Révolution et l'Impôt Progressif," in *L'Economiste Français* (1899), p. 664, is of slight value.

<sup>2</sup> Gomel, *Histoire Financière de la Législative et de la Convention*, i, (1902), p. 273.

authorized for Lyons, in order to purchase food for the people. One-half of the sum was to be raised as a proportional addition to the land tax, the other half from a progressive addition to that part of the "Mobilière" which was levied on house rentals. Since the tax on house rentals was supposed to equal  $1/300$ th part of the presumed income, the new additional tax was arranged in sixteen classes, so that the lowest class, with a presumed income of from 500 to 1,000 livres, paid only a simple addition, while the highest class with a presumed income of over 100,000 livres, paid an additional tax of five times the amount. Presumed incomes under 500 livres were exempted. The attempt of Mallarmé to increase the exemption to 1,500 livres failed to secure the assent of the Convention.<sup>3</sup> On December 3 the same plan was extended to Rouen, and on February 7, 1793, to Paris, presumed incomes under 900 livres being in these cases exempt, and the taxables being divided into fifteen classes. It was in connection with this tax that Cambon made his earnest plea for progression, regarding the scheme as "offrant aux infortunés les secours qu'ils reclament, faisant payer aux riches la protection que leur accorde la loi et ne lésant que le Trésor public." The scheme was repeated twice in the next few weeks; first for Lyons, because of the stoppage of the silk industry on February 18; and then for Paris, because of the bread riots, on February 23. In the case of Lyons the progressive scale advanced from  $1/300$  to  $1/20$  of the presumed income.<sup>4</sup>

On January 6, 1793, Roland, the Minister of the Interior, made a long report in which he proposed the replacement of the *contribution mobilière* by a progressive

<sup>3</sup> Gomel, *op. cit.*, p. 313. For a fuller scale see André de Retz de Serviez, *De l'Impôt Progressif dans l'Histoire en France de 1789 à 1870*, (1904), p. 83.

<sup>4</sup> Gomel, *op. cit.*, I, pp. 377-379.

income tax in thirty classes,<sup>5</sup> but it was not adopted as the Convention was not yet ready for a general application of the progressive principle. It was not long, however, before this was accomplished. On March 9th the Commune of Paris sent an address to the Convention demanding a war tax to be levied on the rich. It read as follows: "La classe pauvre a fait constamment les sacrifices; tout, jusqu'à son sang a été prodigué pour la liberté. Il est temps que le riche égoïste partage les charges que la pauvre seul a supportés. Nous demandons qu'il soit imposé sur cette classe d'hommes une taxe de guerre." This raised such enthusiasm that it was easy for the Jacobin, Thuriot, to persuade the Convention to accept, virtually without further debate, the motion to inaugurate the scheme of a war tax on the rich and to refer it to a committee for study.<sup>6</sup> On the next day Carnot brought in his draft of a declaration of rights, the 17th article of which contains in germ the progressive tax:

"La société a le droit d'établir les contributions qui sont nécessaires au maintien de l'indépendance et de la prospérité nationale, ainsi que de fixer le mode de leur perception, pourvu que ces contributions . . . portent uniquement sur les portions superflues du revenu territorial ou industriel de chacun des citoyens, avant que de peser sur les besoins de première nécessité."<sup>7</sup>

On March 18 Barère came out boldly for a general progressive tax. "C'est," he said, "une institution infiniment juste, quoique quelques personnes l'aient crue impossible." When he proposed to have the Committee on war taxes study it further, one of the members, Ramel-No-

<sup>5</sup> *Archives parlementaires*, I<sup>e</sup> série, lvi, p. 692. Cf. de Retz de Serviez, *op. cit.*, p. 84.

<sup>6</sup> Gomel, *op. cit.*, i, pp. 389-390.

<sup>7</sup> Carnot, *Correspondence Générale*, edited by Charavay, i, (1898), p. 42.

garet, declared that there was no objection to apportioning "les charges publiques d'après des taxes progressives portant principalement sur le luxe et le superflu des riches." He therefore proposed the immediate adoption of a decree: "Pour atteindre à une proportion plus exacte des charges que chaque citoyen doit supporter en raison de ses facultés, il sera établi un impôt gradué et progressif sur le luxe et les richesses tant foncières que mobilières." This was adopted at once. Thus the Convention entered definitely upon the path of progressive taxation.<sup>8</sup> A few days later, on March 23, Vernier made a report for the Committee on Taxation, in the course of which he warmly defended the progressive principle.<sup>9</sup>

On account of its importance the Minister of Finance, Clavière, had been asked in the mean time for his opinion on this suggestion. On February 1st he wrote, approving it in the following terms: "La Citoyen Vernier propose une contribution graduelle sur les parties du revenu des citoyens qui excèdent le véritable nécessaire. On ne peut nier qu'elle soit conforme aux meilleurs principes sociaux, et si la classe fortunée se dégage des préjugés de l'égoïsme, elle s'en plaindra d'autant moins que tout ce qui est nécessaire au rétablissement du crédit lui est nécessaire et avantageux."<sup>10</sup> But neither on this day, nor on the succeeding day, March 26th, when Vernier made a supplementary proposition in favor of a progressive tax, did the Convention decide to follow him. Vernier's first plan was to exempt as the "nécessaire physique" 1,000 livres for each parent and 500 livres for each child, and to have the rate of taxation commence with  $2\frac{1}{2}$  per cent and rise

<sup>8</sup> Gomel, *op. cit.*, i, pp. 421-2. As to Ramel and Barère see also R. Stourm, *Bibliographie Historique des Finances de la France au Dix-Huitième Siècle*, 1895, pp. 225-6.

<sup>9</sup> This will be discussed below in Part II.

<sup>10</sup> Gomel, *op. cit.*, i, p. 431.

to 9 per cent on incomes over 47,000 livres. His second plan was to double the exemption, while the rate of taxation was to begin at 2 per cent and to rise until it reached 50 per cent on incomes of 100,000 livres.<sup>11</sup>

The movement was, however, growing. On April 27 and May 13 the Convention approved of the decision of the Department of Hérault to levy a forced loan of five millions on the rich, in the shape of a progressive tax; and on May 3 it approved of a similar forced loan of twelve millions to be raised by the Commune in Paris.<sup>12</sup> In the last place the exemption was fixed at 1,500 livres for the head of the family, and 1000 livres for every other member of the family, while on the surplus above this minimum, incomes from 1,000 to 2,000 livres paid 30 livres: those from 2,000 to 3,000 livres paid 50 livres, the tax rising at a rapid rate, until incomes from 40,000 to 50,000 livres paid 20,000 livres, (or 50 per cent of the lower figure), while incomes over 50,000 livres paid 100 per cent, i. e., were subject to entire confiscation.<sup>13</sup> This was evidently going as far as it was possible to do.

All this, however, was insignificant compared with the national forced loan of 1,000 million livres. On January 22nd, the Convention decided that this should be levied only on those having an income of over 10,000 livres, if married, or over 6,000 livres if single. But on September 3-7, when the details were adopted, this minimum was dropped. According to the law, as finally enacted, 1,000 livres were exempt for each member of the family (except that married men and widows with children enjoyed an exemption up to 1,500 livres); of the surplus over the exemption the first 1,000 livres were taxed 10 per cent,

<sup>11</sup> Gomel, *op. cit.*, pp. 429, 434.

<sup>12</sup> *Ibid.*, i, pp. 465, 483.

<sup>13</sup> *Ibid.*, i, p. 468. De Retz de Serviez, *op. cit.*, errs in saying that the rate was only 50 per cent.

the second thousand 20 per cent, and so on until the whole surplus over 9,000 livres was taxed 100 per cent; that is, taken entirely by the State.<sup>14</sup>

This virtual confiscation was so extreme that it gave rise to the greatest possible embarrassments and complaints, and although the period of collection was spread over two years it yielded only about one-fifth of the sum that had been anticipated.

Under the Directorate the experiment of a forced loan was repeated twice. The first project, which was adopted by the Council of Five Hundred on the 15th Frimaire, year IV, (December 17, 1795) and which became law four days later, levied a forced loan of 600 million livres. This was arranged in sixteen classes, the last class comprising all those who possessed a capital of more than 500,000 livres and who were held to pay from 1,500 to 6,000 livres, "according to their faculties." It yielded only eight millions. Nothing daunted, the Ancients adopted a similar scheme on the 19th Thermidor, year VII (August 6, 1798). The forced loan of one hundred millions was to assume the form of a supplement to the real estate tax. Those assessed to this tax at less than 300 livres were exempt; on assessments from 300 to 400 livres an addition of three-tenths was imposed, the rate rising gradually until on assessments from 1,000 to 1,100 livres the addition was equal to the original assessment; and on assessments from 3,000 to 4,000 livres it was double the original assessment. On assessments over 4,000 livres the matter was left to a jury with the sole provision that the real estate tax plus the addition of the forced loan was not to exceed three-fourths of the annual income. As the real estate tax was supposed to amount to fifteen per cent of the income, this means that the supplementary

<sup>14</sup> Gomel, *op. cit.*, i, pp. 114-121.

progressive tax might be 400 per cent of the real estate tax. But in the case of certain other individuals who were supposed not to have been taxed at a sufficiently high rate, the jury might assess their entire income.<sup>15</sup> The jury was composed of citizens not subject to the tax, and every tax-payer was invited to send in details as to the wealth of other tax payers.

This law was passed only after much discussion and objection, both<sup>16</sup> in and out<sup>17</sup> of the legislature; and its passage led almost to a crisis. The arbitrariness of the administration was so great that the tax proved exceedingly unequal in its operation; the wealthy generally escaped and the lower middle class as usual bore the chief burden. The yield moreover was deplorably small. After two and one-half months only sixty-one million livres out of the one hundred millions had been assessed, and of this less than half seemed possible of collection. In Paris out of the twelve millions anticipated, only 900,000 livres were actually collected. Before the period of collection expired, however, the *coup d'état* of the 18th Brumaire took place, a revolution to which the attempt to levy this forced loan had contributed not a little.<sup>18</sup>

A few days later, on November 13, 1799, the new Min-

<sup>15</sup> "Le jury évaluerait en son âme et conscience la fortune de ceux qui par leurs entreprises, fournitures ou spéculations auraient acquis une fortune non suffisamment atteinte par la base des contributions."—Albert Vandal, "Les Causes Directes du Dix-Huit Brumaire. III. Impôt Progressif et Loi des Otages." *Revue des Deux Mondes*, vol. 159 (1900), p. 1.

<sup>16</sup> A list of the official reports of committees, etc., for and against the progressive principle will be found in Stourm, *Bibliographie Historique*, etc., pp. 296 *et seq.*

<sup>17</sup> Among the chief protests were the following: Jolivet, *Pétition au Conseil des Cinq Cents contre l'Emploi des Progressions dans les Contributions et Emprunts forcés*. An. VII (1798); Saint-Aubin, *Encore quelques Reflexions isolées sur l'Emprunt Forcé*, Paris, n. d.

<sup>18</sup> Vandal, *op. cit.*, p. II.

ister of Finance, Gaudin, sent in a most unfavorable report containing this scathing passage: "The disastrous system of progressive taxation, so well disguised under the name of forced loan, was bound to produce the double consequence of increasing the depreciation of property by compromising the wealth of the property owners, and of depriving the industrious classes of their means of subsistence, which can no longer be found in their labor when the wealth of the property owner has disappeared. Such has indeed been the result of a law which could not but produce just resentment and from which no real income was to be expected. It is a matter for those who cherish the public credit to bring about the speedy disappearance from our code of a law which only dishonors it."<sup>19</sup>

And Thibault for the commission reported in somewhat more measured, but equally unfavorable, terms: "La commission vous propose de mettre un terme aux malheurs publics dont la cotisation progressive admise pour l'emprunt forcé est devenue la source . . . L'expérience et le raisonnement concourent à démontrer que la cotisation progressive produit une foule d'effets nuisibles à la nation qui veut faire usage de cet instrument."

This was for a long time the end of progressive taxation in France, with the exception of a very minor impost on official salaries. The same year which witnessed the

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<sup>19</sup> "Le système désastreux de l'impôt progressif, si parfaitement déguisé sous la dénomination de l'emprunt forcé, devait produire le double effet d'ajouter à l'avilissement des propriétés en compromettant la fortune des propriétaires, et de priver la classe industrielle des moyens d'existence, qu'elle ne trouve plus dans son travail lorsque l'aisance des propriétaires a disparu. Tel a été en effet, l'unique résultat d'une mesure qui ne pouvait produire que de justes mécontentements et de laquelle on ne devait attendre aucune ressource. Il import au crédit public de faire disparaître promptement au code de notre législation une loi qui le déshonore."

passage of the last forced loan also saw the enactment of a tax on official salaries according to a progressive scale. Salaries of 600 francs were exempt, while:

From 600 to 2000 francs they paid 1/10
" 2000 " 3000 " " " 1/6
" 3000 " 4000 " " " 1/5
Over 4,000 francs they paid 1/4.

This experiment with official salaries was repeated in 1816, and again in 1831. In 1816 the rates varied from 1 per cent in the first class (from 501 to 1,000 francs) up to 30 per cent in the thirty-third class (150,000 to 300,000 francs). In 1831 the rates varied from 2 per cent in the first class (salaries below 2,000 francs), up to 25 per cent in the twenty-fourth class (salaries over 20,000 francs).<sup>20</sup>

In some of the other countries of the European continent, where the French influence was strong, we notice the growth of a tendency toward the adoption of the progressive principle. Thus in the Helvetic Republic several pamphlets were written in favor of adopting the French theories,<sup>21</sup> and the experiment itself was actually tried in 1800, although in a much modified form. By the law of that year salaries were taxed at one per cent and two per cent respectively, according to their amount. Similar laws were adopted in the cantons of Lucerne and Schaffhausen.<sup>22</sup>

In most of the continental countries, however, the occasional high progressive taxes of this period were due to the extraordinary straits in which the governments found themselves. Thus in Holland, in 1796, the progression was so severe as to become almost a confiscation. The rate of the income tax varied from three per cent to

<sup>20</sup> Cf. Vautier, *De l'Impôt Progressif*, 1851, p. 21.

<sup>21</sup> Cf. the details in Schanz, *Die Steuern der Schweiz*, i, p. 9.

<sup>22</sup> *Ibid.*, i, p. 111.

thirty-seven and a half per cent. Although this lasted only a year, it was followed in 1798 by a progressive tax, ranging from four to ten per cent; in 1800, from two to seven per cent; and in 1804, from one to twenty per cent.<sup>23</sup> In Austria a "class" tax was imposed in 1799, and continued with a few changes until 1830, dividing incomes into twenty-three classes, with rates varying from two and a half to twenty per cent. In Baden the produce and property tax (*Erwerbs- und Vermögensteuer*) of 1808-1813 taxed incomes at rates varying from one-half of one per cent to six per cent; while in Russia the rate of the extraordinary property tax of 1812 varied from three to five per cent.<sup>24</sup> With a few exceptions, however, the principle of progression was not applied to the regular taxes during the first half of the nineteenth century. The one important exception is that of the income tax in England which we shall now proceed to study.

<sup>23</sup> Cf. E. van Voorthuijsen, *De directe Belastingen inzonderheid die op de Inkomensten. Eene staatshuishoudkundige Proeve*, 1848, ii, pp. 193-227.

<sup>24</sup> These examples may be found in Parieu, *Histoire des Impôts généraux sur la Propriété et le Revenu*, pp. 152-154. Cf. also his *Traité des Impôts*, i, pp. 442 et seq.

## § 6. *England.*

The scheme of the income tax was first introduced in England by Pitt in 1798, in the Triple Assessment.<sup>1</sup>

The arrangement in brief was this: As to the taxpayers who possessed taxable carriages, horses or men servants, the assessment of the previous year, if under £25, was increased three times; from £25-30, three and a half times; from £30-40, four times; from £40-50, four and a half times, and over £50, five times. As to those paying taxes on inhabited houses, windows, dogs, clocks or watches, the assessments of the previous year were altered or diminished as follows:

£1 - 2 .....	$\frac{1}{4}$	£12½-15.....	$2\frac{1}{2}$
2 - 3 .....	$\frac{1}{2}$	15 -20.....	3
3 - 5 .....	$\frac{3}{4}$	20 -30.....	$3\frac{1}{2}$
5 - 7½.....	1	30 -40.....	4
7½-10 .....	$1\frac{1}{2}$	40 -50.....	$4\frac{1}{2}$
10 -12½.....	2	over 50.....	5

As to those paying taxes on lodgings or shops the assessment was changed as follows:

£3 - 5 .....	$\frac{1}{10}$	£12½-15.....	$\frac{3}{4}$
5 - 7½.....	$\frac{1}{5}$	15 -20.....	1
7½-10 .....	$\frac{1}{4}$	20 -25.....	$1\frac{1}{4}$
10 -12½.....	$\frac{1}{2}$	25 -30.....	$1\frac{1}{2}$
		over 30.....	2

The total payment was so arranged that incomes under £60 were exempt, incomes from £60-200 paid from one hundred and twentieth to one-tenth of the respective amounts, *i. e.*, five-sixths of one per cent to ten per cent,

<sup>1</sup> As the statements of Dowell, *History, etc.*, ii, p. 220 and iii, p. 87, are very incomplete and partly inexact the official figures are here given as contained in the *First Report from the Select Committee on the Income and Property Tax*, 1852, pp. 1-5, and in the act itself, Statute 38 George II, chap. 16, "The Aid and Contribution Act."

while all incomes over £200 paid ten per cent.<sup>2</sup> Parents of four to seven, eight to nine, and ten or more children, could claim ten, fifteen and twenty per cent abatement respectively.

When Pitt introduced his general income tax in 1799,<sup>3</sup> after the comparative failure of the Triple Assessment, the same arrangement was retained as to the total exemption of £60, as well as to the graduation between £60-200, and the ten per cent rate on all incomes over £200. Minor changes were made in abatements allowed for children. When the general income tax was repealed and the system of schedules introduced in 1803, the system of graduation was somewhat altered.<sup>4</sup> £60 were free as before; from £60-70 the rate was three pence in the pound, and the rate increased one penny for every additional ten pounds income, until £150 was reached, above which the rate was uniformly one shilling in the pound. In 1805 one-quarter was added to the rates, but the graduation in the smaller incomes still proceeded on the same principle. In 1806, when the rate of the tax was fixed at ten per cent, the limit of total exemption was decreased from £60

<sup>2</sup> The exact figures were as follows:

On incomes from

£ 60- 65 the tax was not to exceed 1/120 of the income.

	65- 70	"	"	"	1/95	"	"
	70- 75	"	"	"	1/70	"	"
	75- 80	"	"	"	1/65	"	"
and so on to	100-105	"	"	"	1/40	"	"
	105-110	"	"	"	1/38	"	"
	110-115	"	"	"	1/36	"	"
and so on to	150-155	"	"	"	1/20	"	"
	155-160	"	"	"	1/19	"	"
	160-165	"	"	"	1/18	"	"
and so on to over 200	"	"	"	"	1/10	"	"

<sup>3</sup> "The Tax on Property and Employments." 39 George III, chap. 13.

<sup>4</sup> "An Act for granting a Contribution on the Profits arising from Property, Professions, Trades and Offices," 43 George III, chap. 122.

to £50, while the system of abatement was so changed that for every pound income below £150 one shilling tax should be deducted. Thus at

£50 the charge was 100s.	The abatement was 100s.	The tax was	os.
51 " "	102s.	" "	99s. " " " 3s.
52 " "	104s.	" "	98s. " " " 6s.
149 " "	298s.	" "	1s. " " " 297s.
150 " "	300s.	" "	0s. " " " 300s.

Moreover the abatements were limited to incomes from labor, and the allowance for children was abolished, because of the frauds practiced.

The tax was repealed in 1816. When it was reintroduced in 1842 the system of graduation was not adopted, but all incomes below £150 were entirely exempted. In 1853, however, the principle of graduation was again applied, but in a simplified form. The limit of total exemption was changed to £100; on incomes from £100-150 the rate was 5d. in the pound; on incomes above £150 it was 7d. In 1863 another change was made by which the rate was made the same on all incomes, but with the proviso that incomes below a certain sum should be absolutely exempt, while on incomes up to another limit a definite and unchangeable amount should be deducted. This principle still exists at present, although the figures have been slightly altered. Thus in 1863 £100 were exempt, while on incomes between £100-200 an abatement of £60 was made. In 1873 an abatement of £80 was allowed on incomes under £300. In 1876 the limit of absolute exemption was again raised to £150, while on incomes under £400 an abatement of £120 was made.

In 1894 the abatements and exemptions were again extended. On incomes between £160 and £400 the abatement was raised from £120 to £160, and on incomes between £400 and £500, £100 were now deducted. In

1898 this last abatement was increased to £150, and two new classes were added, so that the arrangement became the following, the limit of complete exemption remaining at £160:

On sums from £160-£400 the abatement is £160
" " " 400- 500 " " " 150
" " " 500- 600 " " " 120
" " " 600- 700 " " " 70

the full rate being levied only on incomes of over £700.

This is the system enforced at present; but the movement for the adoption of a more general progressive system has attained such proportions that a select committee was recently appointed to consider the whole subject. The committee brought in its report in 1906. It recommended an extension of the limit of abatements to £1000,<sup>5</sup> but favored leaving the assessment of the tax according to schedules, through stoppage at the source as at present. It stated, however, that on incomes over £5000 it was practicable to introduce a system of general progression by levying what they called a "super-tax" assessed through personal declaration on the income as a whole. The committee also recommended the introduction of the principle of differentiation between earned and unearned

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<sup>5</sup> "Graduation of the income tax by an extension of the existing system of abatements is practicable. But it could not be applied to all incomes from the highest to the lowest, with satisfactory results. The limits of prudent extension would be reached when a large increase in the rate of tax to be collected at the source was necessitated, and the total amount which was collected in excess of what was ultimately retained became so large as to cause serious inconvenience to trade and commerce and to individual taxpayers. Those limits would not be exceeded by raising the amount of income on which an abatement would be allowed to £1,000 or even more." *Report from the Select Committee on Income Tax; with the Proceedings of the Committee*, 1906, no. 365, page 8, sec. 30, paragraph 1.

incomes, stating it to be their opinion that this was practicable if limited to earned incomes of not over £3000. In the budget of 1907 the principle of differentiation was accepted, and "earned" incomes up to £2000 henceforth pay only 25 per cent of the full rates. Up to the present time, however, (1908) a super-tax scheme has not been introduced by the government.

In England, therefore, the principle of graduation has been applied to incomes only in the sense of a degressive tax. The general theory is that of proportional taxation, but a slight allowance is made through the system of abatement on the smallest incomes.

At present, outside of the depression in the income tax, graduation is found only in the so-called death duties or inheritance tax. The old probate duty and account duty as changed in 1881 varied from  $1\frac{1}{2}$  per cent to 3 per cent, while the estate duty levied in 1889, imposed an additional tax of 1 per cent on successions over £10,000, thus increasing the progressive nature of the charge. In 1894, however, a new estate duty was imposed to replace these three duties. The estate duty was graduated according to the following scale:

Estates.	Rates.
£100 to 300.....	30 sh.
300 " 500.....	50 "
500 " 1,000.....	2%
1,000 " 10,000.....	3%
10,000 " 25,000.....	4%
25,000 " 50,000.....	4½%
50,000 " 75,000.....	5%
75,000 " 100,000.....	5½%
100,000 " 150,000.....	6%
150,000 " 250,000.....	6¾%
250,000 " 500,000.....	7%
500,000 " 1,000,000.....	7½%
Over 1,000,000.....	8%

In 1901 the estate tax on estates exceeding £150,000 was increased as follows:

£150,000 to 250,000.....	7%
250,000 " 500,000.....	8%
500,000 " 750,000.....	9%
750,000 " 1,000,000.....	10%
1,000,000 " 1,500,000 } 1,500,000 " 2,000,000 } 2,000,000 " 2,500,000 } 2,500,000 " 3,000,000 } Over 3,000,000..... } 10% on first million and } 11% } 12% } 13% } 14% } 15% } on re- mainder.	

In addition to this estate duty payable on the value of the estate as a whole, collateral heirs are still chargeable with the legacy and succession duty, rising from 3 to 10 per cent according to relationship, and payable on the distributive shares of what remains after the estate duty is paid. The highest actual rate is thus about 23 per cent.<sup>7</sup>

As is pointed out by the Select Committee of 1906 on the income tax, if the income tax and the death duties be regarded together as a form of the taxation of incomes, there is already a very substantial graduation of taxation on incomes derived from large estates, and a differentiation between large incomes derived from personal exertion and those derived from inherited property.<sup>8</sup>

<sup>7</sup> Cf. for details, West, *The Inheritance Tax*, 2nd ed., 1908, pp. 62-64. *Columbia University Series in History, Economics and Public Law*, vol. iv, no. 2.

<sup>8</sup> Report from the Select Committee on the Income Tax, 1906, p. 8. The application of the progressive principle to the income tax in England had previously been discussed unfavorably by G. H. Blundon, "A Progressive Income Tax," in *The Economic Journal*, v (1895), p. 527.

### § 7. Germany.

In Germany the progressive principle has been introduced in both commonwealth and local finance, first in the income tax, then in the inheritance tax, and finally in the unearned increment taxes.<sup>1</sup>

The most important instance was until recently that of the Prussian income tax. Originally instituted in 1820 as a class tax, or species of graduated poll tax, it was divided in 1851 into a class tax and a classified income tax. This latter tax was so arranged that the lowest income in each class paid a rate of three per cent. In 1873 the system was slightly modified, the rate in the class tax varying approximately from three-quarters of one per cent to two and a half per cent, while in the income tax the maximum was still three per cent. Finally, in 1891, the class tax was abolished and the income tax was made somewhat more progressive than the class tax had been. Incomes below 900 marks are exempt; incomes from 900 to 1050 marks pay six marks tax, *i. e.*, 62/100 per cent of the mean. The scale is then so fixed that the rate gradually rises until four per cent is

<sup>1</sup> Cf. in general for the income taxes *Handwörterbuch der Staatswissenschaften*, 3rd ed., 1909, vol. iii, where all the latest details are given. Cf. also Gustav Schmitt, *Systematisch-Kritische Darstellung der zur Zeit in Deutschland und Oesterreich bestehenden allgemeinen Einkommensteuergesetze*, 1900. See also M. v. Heckel, *Die Fortschritte der direkten Besteuerung in den deutschen Staaten*, 1904, and the same author's *Lehrbuch der Finanzwissenschaft*, i, 1907. The most recent and comprehensive account will be found in the authoritative official document entitled *Denkschriftenband zur Begründung des Entwurfs eines Gesetzes betreffend Änderungen im Finanzwesen. Band I, Das Finanzwesen der öffentlichen Körperschaften Deutschlands*, 1908. An account of the German income taxes will also be found in the British blue book, *Reports from his Majesty's Representatives abroad respecting Graduated Income Taxes in Foreign States*. Miscellaneous, no. 2, 1905. Cd. 2587.

reached at an income of 100,000 marks (\$25,000), beyond which point the rate remains the same.<sup>2</sup> In 1906 an amendment was adopted applicable to limited liability companies. Up to that time corporations had been subject to the same scale of the income tax as individuals; but an income of 3½ per cent on the capital was in all cases exempt. Now this exemption was removed in the case of limited liability companies which are henceforth taxable on their entire income. The rates, however, are somewhat higher, rising according to the scale printed on the next page but one.

While a few of the smaller German commonwealths have a proportional income tax, almost all of the income taxes in the larger states are arranged on the progressive principle, some as in Prussia, with fixed taxes for each class of income, others with fixed rates for each class. In almost every case, however, the number of classes is large, so that the increase of rate is very gradual. In Baden the progressive principle is applied in a peculiar way through what is known as *Steueranschläge*, or taxable valuations. For each class of assessed income only a certain sum is taxable, the amount being only one-fifth of the lowest assessed income in the first class (900–1,000

<sup>3</sup> From M. 900 to	1,800 the tax increases	3 marks for every 150
" 1,800 "	4,500 "	5 " " 300
" 4,500 "	6,500 "	14 " " 500
" 6,500 "	7,500 "	16 " " 500
" 7,500 "	9,000 "	20 " " 500
" 9,000 "	9,500 "	24 " " 500
" 9,500 "	10,500 "	24 " " 1,000
" 10,500 "	30,500 "	30 " " 1,000
" 30,500 "	32,000 "	60 " " 1,500
" 32,000 "	78,000 "	80 " " 2,000
" 78,000 "	100,000 "	100 " " 2,000

Above 1,000,000 marks the tax increases 200 marks for each 5,000. Cf. Kolisch, *Das Einkommensteuergesetz vom 24 Juni, 1891, zum praktischen Gebrauch bearbeitet*, Glogau, 1893.

marks) and gradually increasing until when the income is 25,000 marks, the total assessed income is also the total taxable income. The rate, as fixed every year by law, is then levied on these taxable valuations. This system, it will be recognized, is the same as that formerly practiced in the case of the progressive direct tax in Athens. The income tax was first applied in Bavaria in 1899, and in Würtemberg in 1903; in Baden and Saxony the system is somewhat older, the Saxon law, however, having been amended in 1902, the Baden law in 1900 and again in 1906.

In order to bring out clearly the differences in the methods of graduation, the rates for the important commonwealths which possess a general income tax are appended:

**PRUSSIA (1891).**

Income, Marks	Tax, Marks	Income, Marks	Tax, Marks
900-1050.....	6	4200- 4500.....	104
1050-1200.....	9	4500- 5000.....	118
1200-1350.....	12	5000- 5500.....	132
1350-1500.....	16	5500- 6000.....	146
1500-1650.....	21	6000- 6500.....	160
1650-1800.....	26	6500- 7000.....	176
1800-2100.....	31	7000- 7500.....	192
2100-2400.....	36	7500- 8000.....	212
2400-2700.....	44	8000- 8500.....	232
2700-3000.....	52	8500- 9000.....	252
3000-3300.....	60	9000- 9500.....	276
3300-3600.....	70	9500-10500.....	300
3600-3900.....	80	10500-11500.....	330
3900-4200.....	92	11500-12500.....	360

and so on.

Up to 30,500.....increase of 30 for every 1000 marks.

" 32,000..... " " 60 " " 1500

" 37,800..... " " 80 " " 2000

" 40,000..... " " 100 " " 3000

From 100,000-105,000 marks the tax is 4,000 marks.

For every additional 5,000 marks the tax is 200 marks more.

The Prussian rate thus begins at .67 per cent. on \$225 and reaches 4 per cent. at \$25,000.

## PRUSSIA (1906).

## TAX ON LIMITED LIABILITY COMPANIES.

Income, Marks.	Tax, Marks.	Income, Marks.	Tax, Marks.
<b>From</b>			
900-1050.....	7	3000-3300.....	66
1050-1200.....	10	3300-3600.....	76
1200-1350.....	14	3600-3900.....	86
1350-1500.....	18	3900-4200.....	96
1500-1650.....	24	4200-4500.....	112
1650-1800.....	30	4500-5000.....	132
1800-2100.....	36	5000-5500.....	148
2100-2400.....	42	5500-6000.....	164
2400-2700.....	48	6000-6500.....	180
2700-3000.....	56	and so on.	

Up to m. 9,500 the tax increases m. 20 for every 500 marks

" 46,500 "	" 40 "	" 1,000 "
" 48,000 "	" 60 "	" 1,500 "
" 100,000 "	" 100 "	" 2,000 "

On incomes from m. 100,000 to 104,000 the tax is m. 4600 and increases by m. 180 for every additional m. 4000.\*

The rate therefore begins at .78% on \$225, and rises to 4.6% on \$25,000.

## BAVARIA (1899).

Income, Marks.	Tax, Marks.	Income, Marks.	Tax, Marks.
0- 500.....	½	4200- 4600.....	40
500- 750.....	1	4600- 5000.....	45
750- 900.....	2	5000- 5500.....	50
900-1050.....	3	5500- 6000.....	57
1050-1200.....	4	6000- 6500.....	64
1200-1400.....	5	6500- 7000.....	72
1400-1600.....	6	7000- 7500.....	80
1600-1800.....	8	7500- 8000.....	90
1800-2000.....	10	8000- 8500.....	100
2000-2200.....	12	8500- 9000.....	112
2200-2400.....	15	9000- 9500.....	124
2400-2700.....	18	9500-10000.....	136
2700-3000.....	22	10000-11000.....	150
3000-3400.....	26	11000-12000.....	165
3400-3800.....	30	12000-13000.....	180
3800-4200.....	35	13000-14000.....	200
and so on.			

\* The new law will be found in Schanz, *Finanz Archiv*, vol. xxiii (1906), pp. 582 *et seq.*

Up to 22,000 an increase of 20 m. for every 1,000 marks

" 34,000	"	" 30	"	" 1,000	"
" 41,000	"	" 40	"	" 1,000	"
" 50,000	"	" 50	"	" 1,000	"

Above 50,000 m. the tax remains at 3%.<sup>4</sup>

#### WÜRTEMBERG (1903).

The Würtemberg law of 1903 is arranged in 96 classes. As these would be too bulky to print entire, we add only a few of the typical lower classes:

Class.	Income, Marks.	Tax, Marks.
I.....	500—650.....	2
10.....	1,850—2,000.....	18
20.....	3,350—3,500.....	53
30.....	4,850—5,000.....	121
40.....	6,800—7,000.....	204
50.....	9,700—10,000.....	340
60.....	14,500—15,000.....	549
70.....	24,000—25,000.....	956
75.....	29,000—30,000.....	1175

Above 30,000 marks the rate of tax is as follows:

76.....	30,000—35,000.....	4%
80.....	50,000—55,000.....	4.20%
85.....	90,000—100,000.....	4.45%
90.....	140,000—150,000.....	4.70%
95.....	190,000—200,000.....	4.95%
96.....	200,000 and over.....	5% <sup>5</sup>

#### BADEN (1906).

Income, Marks.	Steueranschlag (Valuation) Marks.
900—1000.....	200
1000—1100.....	250
1100—1200.....	300
and so on.	
2000—2100.....	750
2100—2200.....	825
and so on.	
3000—3100.....	1500
3100—3200.....	1600
and so on up to 10,000 marks.	

<sup>4</sup> Details will be found in Schanz, *Finanz Archiv*, xvii (1900), p. 773.

<sup>5</sup> The law is printed in Schanz, *Finanz Archiv*, xxi, (1904), pp. 115 *et seq.*

On incomes from 10,000 to 20,000 m. the first 10,000 m. are valued at 9,000 marks, and every 500 marks additional is valued at the full amount.

On incomes from 20,000 m. to 25,000 m. every 500 m. is valued at the full amount.

On incomes over 25,000 m. every 1,000 m. is valued at the full amount.<sup>6</sup>

#### SAXONY (1902).

Income, Marks.	Tax, Marks.	Income, Marks.	Tax, Marks.
400- 500.....	1	3400- 3700.....	90
500- 600.....	2	3700- 4000.....	105
600- 700.....	3	4000- 4300.....	120
700- 800.....	4	4300- 4800.....	140
800- 950.....	7	4800- 5300.....	160
950-1100.....	10	5300- 5800.....	180
1100-1250.....	13	5800- 6300.....	200
1250-1400.....	16	6300- 6800.....	221
1400-1600.....	20	6800- 7300.....	242
1600-1900.....	26	7300- 7800.....	263
1900-2200.....	36	7800- 8300.....	285
2200-2500.....	46	8300- 8800.....	307
2500-2800.....	56	8800- 9400.....	330
2800-3100.....	67	9400-10000.....	354
3100-3400.....	78	10000-11000.....	380

and so on.

Up to 20,000 marks the tax rises 40 m. for each 1,000 marks.

" 34,000 " " " 45 " " 1,000 "

" 73,000 " " " 50 " " 1,000 "

" 100,000 " " " 60 " " 1,000 "

Over 100,000 marks the rate remains at 5%.<sup>7</sup>

The principle of graduation has been applied in Germany also to the local income taxes. In Prussia, for

<sup>6</sup>The rates in Baden were slightly altered in 1894 and again in 1900 and 1906. For the 1894 rates see Schanz, *Finanz Archiv*, xii, (1895), p. 173. The figures in the text are for the new law of 1906, *Finanz Archiv*, xxiv, (1907), p. 153. For the earlier history see Max Voigtel, *Die direkten Staats- und Gemeindesteuern im Grossherzogtum Baden*, 1903.

<sup>7</sup>The law of 1902 will be found in full in Schanz, *Finanz Archiv*, xx (1903), pp. 258, 279. The earlier law of 1894 will be found *ibid.* xii, (1895), p. 191.

example, we find such graduated local taxes running up to as high as ten or twelve per cent of the income.<sup>8</sup>

The German state income taxes ought, therefore, really to be called degressive rather than progressive taxes, the normal rate which is usually reached at incomes of 100,000 marks being four per cent in Prussia and Hesse, and five per cent in Saxony and Württemberg. The highest rates in any of the German states are found in the old Hansa towns, where they reach the figure of eight per cent. In these cases, however, it must be remembered that the tax includes local as well as state imposts.

Recent years have witnessed the application of the progressive principle to inheritance taxes also. The movement began in Baden in 1899, spread to Hamburg and Lübeck in 1903, to Bremen in 1904, and to Anhalt and Reuss (younger line) in 1905. In 1906, however, a progressive inheritance tax was adopted for the entire German empire. The basic rates, arranged according to relationship, are as follows:

	Per Cent.
Children and other direct descendants.....	exempt
Parents, brothers and sisters and their children....	4
Grandparents, parents-in-law, step-parents, children-in-law and step-children, grand nephews and nieces and adopted children.....	6
Brothers and sisters of parents and relatives by marriage in the second degree, in collateral lines	8
All other cases .....	10
Inheritances under 500 marks.....	exempt
And in the case of parents, grandparents and adopted children, 10,000 marks.....	exempt

<sup>8</sup> Cf. the details for each town during the seventies in Neumann, *Die progressive Einkommensteuer im Staats- und Gemeinde-Haus-halt*, pp. 114-125. For later details see the literature mentioned on p. 46.

	Per Cent.
Over 20,000 marks (or in the first 4% class over 50,000 marks) the rates are increased 1/10 for each further sum, at first of 20,000 or 25,000 marks, and afterwards of 50,000 or 100,000 marks.	
On inheritances over 1,000,000 marks or more the rate is 2½ times the basic rate, making the maximum charge .....	25%

The progressive rates apply to the entire amount of the inheritance, and not, as in France, only to the respective fractions.<sup>9</sup> Germany thus now enjoys the distinction of having the highest maximum that is found in any of the leading European countries. In the project presented to the Reichstag at the end of 1908 it is proposed to raise these high figures to a still higher level.

The progressive principle has still more recently been applied in Germany in connection with the tax on the unearned increment, or increased selling value of land (*Wertzuwachssteuer*).<sup>10</sup>

The unearned increment tax was introduced in Cologne in 1905, and has now spread to a number of towns, more especially Frankfurt a/M, Dortmund, Essen, Gelsenkirchen, Hanau, Liegnitz, and to some of the suburbs of Leipsic and Berlin. The character of the progressive rates may be illustrated by the system in force in Cologne. The increase of value on which the tax is payable is interpreted to mean the difference between the last price paid for the property at any sale and the present price. To the last price paid, however, are to be added, (a) in the case of unimproved land, interest, not compounded, at the rate

<sup>9</sup> See Schanz, *Finanz Archiv*, xxiii, (1906), p. 784; also West, *The Inheritance Tax*, 2nd Edition, (1908), pp. 35, 36.

<sup>10</sup> Cf. K. Kumpmann, *Die Wertzuwachssteuer*, 1907; R. Brunhuber, *Die Wertzuwachssteuer*, 1906; A. Wagner, *Zur Rechtfertigung der Zuwachssteuer*, 1906; Boldt, *Die Wertzuwachssteuer*, 1908; Damaschke, *Jahrbuch der Bodenreform*, *passim*; R. C. Brooks, "The New Unearned Increment Taxes in Germany," *Yale Review*, xvi, (1907), pp. 237, *et seq.*

of four per cent from the time of the last sale to the present sale; (b) expenditures incurred for the improvement of the land and costs of new buildings or re-buildings; (c) five per cent of the last price to represent stamp tax, transfer tax, and certain fees. If certain parcels of the whole tract have been sold at a loss, the loss may be deducted provided that the losing sales occurred at the same time as the profitable sales, or within a period of three years previous. With these limitations, the rates are as follows:

An increase of value of 10 per cent or less is exempt.

An increase of value in excess of ten per cent is taxed at the following rates:

Increase of value in excess of 10%.	Tax rate (%).
10-20.....	10
20-30.....	11
30-40.....	12
and so on.	

The rate of tax increases one per cent for each ten per cent increase of value, up to a rate of twenty-five per cent on an increase of value in excess of 160 per cent.

These rates, however, are applied only in case less than five years have elapsed since the last sale. If more than five, and less than ten years have elapsed, only two-thirds of the above rates are applied; if more than ten years, only one-third.

In the other towns, the initial rate and the rate of progression vary considerably. In some cases the minimum rate is only three per cent and in others five per cent. The rate of progression varies from one per cent tax for each ten per cent increase of value, as in Cologne, up to ten per cent tax for each five per cent increase of value. The maximum limits vary still more widely. In Paderborn, Dortmund, Essen and Hanau the highest rate of tax is fifteen per cent in case of an increase of value over 75,

80, 140 and 200 per cent respectively. In Frankfort the maximum is twenty-five per cent tax where the increase of value is over 130 per cent. Gelsenkirchen has the highest maximum with a rate of thirty per cent where the increase in value is over 155 per cent.

The results of this experiment with the progressive taxation of the unearned increment of urban land will be watched with interest. Thus far the yield has been on the whole insignificant.

A study of progressive taxation in Germany would not be complete without reference to the so-called *Staffelsteuern* or graduated taxes on spirituous and malt liquors.<sup>11</sup>

The tax on alcoholic liquors (*Branntweinsteuer*) became in 1887 an imperial tax on distilleries (*Brennsteuer*) with two separate graduated scales which were merged by the law of 1902 into a single scale. According to this act, the tax begins with a production of 200 hectolitres of pure alcohol when the rate is two marks per hectolitre. From 200 to 400 hectolitres the tax increases by half a mark for every additional 100 hectolitres; above 400 hectolitres it increases by half a mark for every additional 200 hectolitres, until it reaches a maximum of six and a half marks for 1800 hectolitres.

The tax on malt liquors (*Brausteuer*) is not an imperial tax. But apart from the separate beer taxes in Bavaria, Würtemberg and Baden, most of the other German states have formed a North German Union (*Norddeutsche Brausteuergemeinschaft*) which adopted in 1906 a general law on the subject.<sup>12</sup> According to this act the

<sup>11</sup> For a general discussion of these taxes, see Josef Dierschke, *Progressive Besteuerung des Grossbetriebes bei einigen Verbrauchsteuern*, 1903, and Clément Charpentier, *La Progression dans les Impôts Indirects en Allemagne*, 1908.

<sup>12</sup> See especially E. Struve, *Zur Frage der Brausteueralterstellung in der nord-deutschen Brausteuergemeinschaft*, 1906.

tax is graduated according to the amount of raw materials employed. Breweries using during the fiscal period 250 metric quintals or less, pay 4 marks. Above that limit the tax is as follows:

Quintals	Tax per Hectolitre, in marks
250- 500.....	4.50
500-1,000.....	5.00
1,000-2,000.....	5.50
2,000-3,000.....	6.22
3,000-4,000.....	7.00
4,000-5,000.....	8.00
5,000-6,000.....	9.00
Over 6,000.....	10.00

In Bavaria, according to the law of 1888, the general rate is six marks per hectolitre. But breweries using less than 6,000 hectolitres of malt pay only five marks per hectolitre for the first 2,000. If they use more than 10,000 hectolitres the rate increases by a quarter of a mark per hectolitre for the next 30,000 hectolitres, and by half a mark per hectolitre for everything above 40,000 hectolitres.

In Würtemberg graduation was introduced in 1893. In 1900 the rates were changed as follows: The normal tax is five marks per quintal of malt used. Up to 1000 quintals, however, the tax is fixed at 70 per cent of the normal rate, for the next 1000 quintals at 80 per cent, for the next 3000 quintals at 100 per cent, for the next 4000 quintals at 110 per cent, for the next 10,000 quintals at 120 per cent.

In Baden the progressive rate dates from 1896. For a production up to 1500 quintals of malt the tax is eight marks for the first 250 quintals, and 10 marks for the remainder; from 1500 to 5000 quintals the rate is eleven marks, and above 5000 quintals the tax is twelve marks.

The system of graduation was also applied in Germany to the sugar tax in 1896. But as a consequence of the

abolition of sugar bounties by the Brussels Convention the entire system of sugar taxes was abandoned in 1903.

It will be seen from the above that the German system of progressive indirect taxes on liquors has for its object the desire to protect the small producer against the competition of his larger rival. Much the same end was sought to be achieved by the progressive tax on department stores (*Waarenhaussteuer*), which is found in several of the German states, and which is graduated according to the amount of sales (*Umsatzsteuer*).

In Prussia this tax dates from 1900. The tax begins at the rate of one per cent, when the sales amount to 400,000 marks, and increases slowly until it reaches two per cent at 1,000,000 marks. In Bavaria, according to the law of 1899 the range of the tax is greater, varying from one-half of one per cent to three per cent. In Baden, according to the law of 1904, the graduation is considerably more marked. The rate begins at two per mill for sales of 200,000 marks, and increases one per mill for each succeeding 200,000 marks up to 1,000,000 marks. Above that the rate increases one per mill for each successive 100,000 marks until it reaches ten per cent.<sup>13</sup> The protection of the small shop keeper, which was the avowed aim of this progressive tax, in pursuance of the famous middle-class policy (*Mittelstandspolitik*), has, however, not been achieved.<sup>14</sup>

<sup>13</sup> For details of the various German laws see v. Heckel, *Lehrbuch der Finanzwissenschaft*, i, 1907, pp. 306-308.

<sup>14</sup> Cf. Hans Gehrig, *Die Waarenhaussteuer in Preussen: ein Beitrag zur Mittelstandspolitik*, 1905. Dr. Gehrig declares the tax to have been a complete failure, and sees in the entire episode only another instance of the futility of seeking to check by government measures, and especially by any system of taxation, a natural economic evolution.

## § 8. *Austria.*

In Austria the income tax is levied partly on the progressive principle. The tax dates from 1849, but has been somewhat amended several times since, especially in 1868. According to the law of that date there were several schedules, to each of which a different rate of progression was applicable. The first schedule included incomes from business already subjected to the business tax; the second schedule comprised other incomes from personal exertions; the third schedule included incomes from loans, etc. In the first schedule the tax was originally a proportional tax of five per cent, but the successive amendments imposed additional increments on certain classes, while adding smaller increments to other classes. The result was a progressive scale. In the case of certain associations and corporations falling within this schedule the progression was very rapid, ranging from two and a half to almost ten per cent. The law<sup>1</sup> declared that when the income exceeded three hundred gulden, the first additional thousand gulden should be assessed at three-tenths of the amount, the second thou-

<sup>1</sup> Thus:

Income, Gulden.	Assessment, Gulden.	Tax Rate, per cent.	Tax, Gulden.	Rate of Income per cent.
1,000.....	300.....	8.5.....	25.5.....	2.55
2,000.....	800.....	10 .....	80 .....	4
3,000.....	1,800.....	10 .....	180 .....	6
4,000.....	2,800.....	10 .....	280 .....	7
6,000.....	4,800.....	10 .....	480 .....	8
8,000.....	6,800.....	10 .....	680 .....	8.5
12,000.....	10,800.....	10 .....	1,080 .....	9
30,000.....	28,800.....	10 .....	2,880 .....	9.6
100,000.....	98,800.....	10 .....	9,880 .....	9.88
1,000,000.....	998,800.....	10 .....	99,880 .....	9.988

*Cf.* E. von Fürth, *Die Einkommensteuer in Oesterreich und ihre Reform*, 1892, p. 46.

sand gulden at five-tenths, and the remainder at its full value.

In the second schedule the progressive principle was introduced already in 1849. From 630 to 1,050 gulden (600 to 1,000, old standard) the rate was one per cent, then rising one per cent for each 1,050 (old standard, 1,000) gulden until a maximum of ten per cent was reached. Owing to certain additions (*Zuschläge*), which varied from seventy to one hundred per cent in the different classes, the rates were from one and seven-tenths per cent to almost twenty per cent of the income.<sup>2</sup> This seems an extravagantly high rate. In the third sched-

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<sup>2</sup> The exact figures are:

	Income, Gulden.	Tax, Gulden.	Rate, per cent.
Under	630.....	0 .....	0
	630.....	10.71.....	1.7
	1,050.....	17.85.....	1.7
	1,275.....	25.52.....	2
	1,995.....	49.98.....	2.5
	2,100.....	63 .....	3
	3,150.....	126 .....	4
	4,200.....	210 .....	5
	5,250.....	315 .....	6
	6,300.....	441 .....	7
	7,350.....	588 .....	8
	8,500.....	756 .....	9
	9,450.....	945 .....	10
	10,500.....	1,155 .....	11
	12,600.....	1,575 .....	12.5
	15,750.....	2,205 .....	14
	18,900.....	2,835 .....	15
	23,625.....	3,780 .....	16
	31,500.....	5,355 .....	17
	47,250.....	8,505 .....	18
	94,500.....	17,955 .....	19
	1,050,000.....	209,055 .....	19.91
	10,500,000.....	2,099,055 .....	19.991

*Cf.* Fürth, *op. cit.*, p. 47.

ule, there was not so much a progression as a differentiation of the tax.

In 1896 the system was again changed. The third schedule of the income tax was abolished and was converted into an independent tax on the income of capital (*Kapitalrentensteuer*) with the rates from one and one-half to ten per cent. The other two schedules were consolidated into a general income and salary tax (*Personal-einkommen- und Besoldungssteuer*), arranged according to a graduated scale. Incomes under 48,000 florins are arranged in sixty-five classes. Typical classes, with the tax thereon, are as follows:

Class.	Income, florins.	Tax, florins.
1.....	600—625.....	3.60
10.....	950—1,000.....	9.20
20.....	1,900—2,000.....	30
30.....	4,200—4,600.....	101
40.....	9,000—9,500.....	272
50.....	18,000—19,000.....	670
60.....	36,000—38,000.....	1,390
65.....	46,000—48,000.....	1,860

and so on.

Up to 100,000 florins there is an increase of 100 fl. for every 2,000. From 100,000 to 105,000 fl. the tax is 4650 fl. On incomes over 105,000 fl. there is an increase of 250 fl. for every 5,000 fl.: that is, at the rate of five per cent.<sup>8</sup>

There is a supplementary tax on higher salaries, beginning at the rate of 0.4 per cent on salaries of 3,200 fl. and rising to 6 per cent on salaries over 15,000 fl.

The progressive scheme has also been applied to inheritance taxes for local purposes. Thus in lower Aus-

<sup>8</sup> Schanz, *Finanz Archiv*, xiv (1897), p. 167. See also R. Sieghart, "The Reform of Direct Taxation in Austria," *Economic Journal*, viii (1898), p. 173.

tria and in Vienna we find light progressive inheritance taxes imposed for special purposes. In lower Austria it is a school tax, beginning at one-quarter of one per cent for sums under 1,000 fl., and in Vienna it is levied for the hospital fund.<sup>4</sup>

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<sup>4</sup> *Journal for the Society of Comparative Legislation*, vol. v, p. 26.

### § 9. *Switzerland.*

More interesting, because more distinctly due to the growth of democratic impulses, are the progressive income and property taxes in Switzerland.<sup>1</sup> Here progressive taxation is of recent date. It is indeed true that after the revolutionary movements of 1830 and 1848, when the Swiss were beginning to realize the inadequacy of the general property tax and were endeavoring to supplement it with an income tax derived from other sources than property, the income tax was made degressive, generally sharply degressive. This was the case in Zürich in 1832, where on incomes below eight thousand francs the rate descended from two and a half per cent to one-

<sup>1</sup> An article by Prof. Gustave Cohn, "Income and Property Taxes in Switzerland," in *Political Science Quarterly*, iv (1889), p. 37, draws some general conclusions from the experience of Zurich. The article by Mr. R. H. Inglis Palgrave, "Progressive Taxation as levied in Switzerland," in *Journal of the Royal Statistical Society*, li (1888), p. 225, deals especially with the cantons of Baselstadt, Vaud and Uri. The English blue book *Report on the different Systems of Graduated Taxation in force in Switzerland*, (1892), deals with five cantons only: Vaud, Zürich, Geneva, Grisons and Uri. The later report of 1905 on graduated income taxes, quoted above, p. 46, includes all the cantons. For complete and detailed information for the whole of Switzerland students must turn to Georg Schanz, *Die Steuern der Schweiz in ihrer Entwicklung seit Beginn des 19 Jahrhunderts*, five volumes (1890). Vol. i gives a general survey in pages 110-114, and the tables of progression for each canton in pages 367-379, while the details of the development will be found in volumes ii, iii and iv, and the laws themselves in vol. v. In the *Quarterly Journal of Economics*, i, 225, may be found the text of the law of 1886, imposing the progressive property tax in the canton of Vaud. A good account may also be found in Max de Cérenville, *Les Impôts en Suisse*, 1898. In the interval between Schanz and Cérenville there were but few important changes in the progressive taxes. Since 1898 the changes have been still fewer. Cf. also the semi-official work of Dr. J. Steiger, *Grundzüge des Finanshaushaltes der Kantone und Gemeinden*. Herausgegeben unter Mitwirkung des eidgenössischen statistischen Bureaus und Kantonaler Behörden. Bern, 1903.

fiftieth of one per cent.<sup>2</sup> The same is true of St. Gallen in 1832, of Zug in 1848, of Thurgau in 1849, and many others. Some of the official commissions during these years recommended progressive taxes for the higher incomes, as well as the extension of the graduated principle to the property tax. The public, however, was not yet prepared for this. In fact, in a few cases the depression in the income tax was again abolished, as in Zug in 1851, and in Schaffhausen in 1862. The only exception to the statement that graduation was not applied to property is Baselstadt, where the income tax of 1840 was extended to the income from property as well, and where the rate varied from one-half of one per cent to three per cent for incomes over six thousand francs.<sup>3</sup> The high progressive property tax in Neuenberg (Neuchâtel) in 1848, where the rate varied from one per cent on 1,000-3,000 francs property to ten per cent on property over 500,000 francs, was an extraordinary measure and was not repeated.<sup>4</sup>

The real impetus to progressive taxation was given by the Zürich law of 1870, which applied the progressive scale to property as well as to income. During the seventies Graubünden (Grisons), Glarus, Obwalden, Zug and Schaffhausen adopted the plan; during the eighties Aargau, Uri, Vaud; during the nineties Appenzell, Baselland, Baselstadt, Lucerne and Solothurn followed. To-day progressive taxation of property or income is found in twenty of the twenty-five cantons, while the progressive inheritance tax is found in nine cantons, progressive taxation of some kind existing in twenty-one out of the twenty-five cantons.

The system of progressive taxes on property or income in Switzerland may be classified into three groups:

1. The cantons with a proportional property tax, but

<sup>2</sup> Schanz, *op. cit.*, ii, p. 389.

<sup>3</sup> *Ibid.*, ii, p. 35.

<sup>4</sup> *Ibid.*, iv, p. 50.

a progressive income tax. These are Bern, Freiburg, Obwalden, St. Gallen, Thurgau and Ticino. The rate of the property tax is the same, but the rate of the income tax varies from zero (in St. Gallen seven hundred francs income are entirely exempt), by slow gradations to over four per cent. The laws fix, not the rate of the tax, but the amount of the tax to be paid for each class of income.<sup>5</sup>

2. The cantons with a progressive property tax. These are Geneva and Glarus. In Geneva the *taxe mobilière* applies only to personality. If the property does not exceed 50,000 francs, the first 3,000 francs pay nothing, the remainder pays one per mill; if the property is between 50,000 and 250,000 francs, the first 50,000 francs pay forty-seven francs, and the rest two per mill; if the property exceeds 250,000 francs, the charges are as in the preceding case, except that the surplus over 250,000 francs pays three per mill. In Glarus the general property tax is so arranged that on property less than 25,000 francs, the assessment is only sixty per cent of the true value, while on property above 100,000 francs an addition is made to the rate, ranging from one-tenth of one per cent to two per cent in the case of four million francs property.<sup>6</sup>

3. The cantons with progressive property and income taxes. Most of the cantons with a property tax levy an income tax only on so-called earned income; *i. e.*, income not derived from property. But Baselstadt and Baselland levy the income tax on incomes from property as well. Baselland, however, excepts interest on monied capital from the income tax.<sup>7</sup> The progressive rates are much more sharply graduated in the income tax than in the property tax. For instance, in Baselstadt the rate

<sup>5</sup> Schanz, *op. cit.*, v, pp. 309, 325, 353.

<sup>6</sup> *Ibid.*, iii, p. 85.

<sup>7</sup> *Ibid.*, i, p. 55.

of the property tax is one, one and a half and two per cent, according as the property is below 100,000, between 100,000-200,000, or over 200,000 francs. The income tax is one per cent on incomes to 4,000 francs; two per cent on the excess to 8,000 francs; three per cent on the excess to 12,000 francs, and four per cent on the remainder. Concessions are made for unmarried persons, and parents with small children for incomes from 1,200-2,400 francs. Calculating the property on a four per cent income basis, and including the additions levied for communal purposes, the rate of the entire property and income tax, when the income is derived from property, varies from less than two per cent up to nine and eight-tenths per cent of the income.<sup>8</sup> In other cantons the rate of progression is smaller.

So far as the technical methods of carrying out the progressive principle are concerned, the Swiss cantons may be divided into four classes. The first class pursues the old Athenian plan, which in lieu of changing the rate assesses to the tax not the whole, but only varying proportions of the true property or income. Thus in Zürich,

In the property tax 5/10 of the first 20,000 francs are assessed.

6/10	"	next	30,000	"	"
7/10	"	"	50,000	"	"
8/10	"	"	100,000	"	"
9/10	"	"	200,000	"	"
10/10	"	"	remainder	"	"

In the income tax 2/10 of the first 1,500 francs are assessed.

4/10	"	next	1,500	"	"
6/10	"	"	3,000	"	"
8/10	"	"	4,000	"	"
10/10	"	"	remainder	"	"

Every one hundred francs income pays two francs, as often as every thousand francs property pays one franc. The same is virtually true in Freiburg.

<sup>8</sup> Cf. the table in Bücher, *Basel's Staatseinnahmen*, p. 82, and Schanz, *op. cit.*, i, p. 379.

The second class follows the plan of capitalizing the income at different rates. Thus in Solothurn<sup>9</sup> where both an income tax and a property tax exist, incomes above one thousand francs are considered as equivalent to property of ten times the amount; but incomes from—

900-1000	francs	are deemed to correspond to	8,000	francs property.
800- 900	" " "	" "	6,000	" "
700- 800	" " "	" "	4,500	" "
600- 700	" " "	" "	3,000	" "
500- 600	" " "	" "	2,000	" "
400- 500	" " "	" "	1,000	" "
300- 400	" " "	" "	400	" "

Incomes below 300 francs are deemed to correspond to property of the same amounts.

In the third and fourth classes, which comprise the large majority of the cantons, the laws either prescribe a definite sum or rate to be paid by each class, or alter the rate for each class of property or income. Most of the cantons charge a fixed rate upon the entire property or income, according to the class in which it falls. But a few cantons, like Basel, Zug, Schaffhausen, Aargau and Vaud, divide the entire property or income, so that each successive portion or increment pays the rate assigned to that particular amount of the property or income.<sup>10</sup> In order to ascertain the tax on the entire sum, it thus becomes necessary to make a series of arduous computations and additions. Geneva follows the same plan for its property tax, as does Ticino for its income tax.

A peculiar feature of the Swiss taxes is that the progressive rate is applied separately to the income tax and to the property tax. A taxpayer with 2,500 francs income from property and 2,500 francs income from labor

<sup>9</sup> Schanz, *op. cit.*, ii, p. 457.

<sup>10</sup> *Ibid.*, i, p. 113.

will be assessed separately for each, and will pay less than if he had 5,000 francs income, either from property alone or from labor alone. Only two cantons have attempted to apply the progressive system to the whole income, irrespective of the source. They accomplish this by adding a certain percentage, not to the taxable property or income, but to the amount of the tax, figured on a proportional taxation of property and income. Thus in Aargau, every one who is assessed at from 40-70 francs tax must pay five per cent additional, from 70-100 francs tax ten per cent additional, and so on, until those who are assessed at over 500 francs tax must pay thirty-three per cent additional. So in Schaffhausen, those assessed at 25-50 francs pay five per cent additional, and so on until those assessed at over 500 francs tax pay fifty per cent additional. This plan possesses at least the advantage of simplicity. In most of the cantons the rate is determined for each assessment by the Grand Council, with a maximum rate which may not be exceeded without reference to popular vote. But in Basel, Geneva and Vaud the rates are fixed in the law itself.

For the sake of completeness the rates of progression in each of the sixteen cantons are herewith appended in the following tables, the figures after the name of the canton signifying the year in which the law now in force was enacted:

**AARGAU.—(ARGOVIE.)—1885.**

**PROPERTY AND INCOME TAX.**

If normal tax varies from 40- 70 fr. an addition is made of 5%

"	"	"	"	"	70-100	"	"	"	10%
"	"	"	"	"	100-200	"	"	"	15%
"	"	"	"	"	200-300	"	"	"	20%
"	"	"	"	"	300-400	"	"	"	25%
"	"	"	"	"	400-500	"	"	"	30%

If the normal tax is over 500 fr. an addition is made of 33½%

## APPENZELL A. RH.—(RHODES EXTÉRIEURS.)—1897.

## PROPERTY TAX.

Property.	Rate.
1— 10,000 fr.	Simple rate, generally 1%
10,001— 20,000	1.05
20,001— 50,000	1.10
50,001—100,000	1.15
100,001—200,000	1.20
Over 200,000	1.25

## INCOME TAX.

Up to 2,000 fr. income the rate is 1/10 of 1%.

From 2,000 to 10,000 fr. income the rate rises 1/10 of 1% for every one thousand francs.

At 10,000 fr. income the rate is 1%.

## BASELLAND.—(BALE-CAMPAGNE.)—1892.

## PROPERTY TAX.

Property.	Rate.
From 1,000— 30,000 fr.	Simple rate, generally 1%.
" 30,001— 60,000	Addition of 1/10 for each 15,000 fr.
" 60,001—100,000	" " 1/10 " " 20,000 "
" 100,001—300,000	" " 1/10 " " 25,000 "
" 300,001—400,000	" " 1/10 " " 50,000 "
Above 400,000 fr. the rate is 2½ times the simple rate.	

## INCOME TAX.

Income.	Rate.
500— 700 fr.	½ the simple rate.
701— 900	¾ the simple rate.
901— 3,000	Simple rate.
3,001— 5,000	20% increase for each 500 fr.
5,001— 6,000	20% increase for each 1,000 fr.
6,001—12,000	30% increase for each 1,000 fr.
Over 12,000	3 times the simple rate.

## BASELSTADT.—(BALE-VILLE).—1897.

## PROPERTY TAX.

Property.	Rate.
Up to 50,000 fr.....	1%
50,000—100,000.....	1½%
100,000—200,000.....	2%
Over 200,000.....	3%

## INCOME TAX.

Income.	Rate.
Up to 4,000 fr.....	1%
On surplus to 8,000.....	2%
On surplus to 12,000.....	3%
On surplus to 16,000.....	4%
On excess over 16,000.....	5%

## BERN.—1865.

## INCOME TAX.

	Income.	Rate per cent		
		Capital.	Pensions, etc.	Other Income
Each	50-100 fr.....	$2\frac{1}{2}$	2	$1\frac{1}{2}$
"	150-200.....	5	4	3
"	250-300.....	$7\frac{1}{2}$	6	$4\frac{1}{2}$
"	350-400.....	10	8	6
"	450-500.....	$12\frac{1}{2}$	10	$7\frac{1}{2}$
	etc., etc.		etc., etc.	

## FREIBURG.—(FRIBOURG.)—1848.

## INCOME TAX.

If the income does not exceed 1,500 fr., 5/10 are exempted.  
 If the income does not exceed 5,000 fr., 4/10 are exempted.  
 If the income exceeds 5,000 fr., 3/10 are exempted.

## GENEVA.—1887.

## PERSONAL PROPERTY TAX.

Property.	Rate
Up to 50,000 fr.....	0 on first 3,000, 1/10 of 1 per cent on excess.
50,000-250,000....	47 fr. on first 50,000, 2/10 of 1 per cent on excess.
Over 250,000. {	47 fr. on first 50,000, 2/10 of 1 per cent on excess up to 250,000, and 3/10 of 1 per cent on excess.

## GLARUS.—(GLARIS.)—1891.

## PROPERTY TAX.

Property.	Rate.	Property.	Rate.
Under 25,000 fr.	{ 60 per cent of assessment.	400,001- 500,000	7/10 additional.
	60 per cent of assessment.	500,001- 600,000	8/10 "
25,000-100,000	{ 25,000; full rate for remainder.	600,001- 700,000	9/10 "
	for first 25,000; full rate for remainder.	700,001- 800,000	10/10 "
100,001-150,000	1/10 additional.	800,001- 900,000	11/10 "
150,001-200,000	2/10 "	900,001-1,000,000	12/10 "
200,001-250,000	3/10 "	1,000,001-1,250,000	13/10 "
250,001-300,000	4/10 "	1,250,001-1,500,000	14/10 "
300,001-350,000	5/10 "	1,500,001-1,750,000	15/10 "
350,001-400,000	6/10 "	1,750,001-2,000,000	16/10 "
		2,000,001-2,500,000	17/10 "
		2,500,001-3,000,000	18/10 "
		3,000,001-3,500,000	19/10 "
		3,500,001-4,000,000	20/10 "

## GRAUBÜNDEN.—(GRISONS.)—1881.

## PROPERTY AND INCOME TAX.

## PROPERTY TAX.

Property.	Rate.
1- 20,000 fr..... pay..... full.	
20,001- 50,000..... "	1/10 addition for each 1,000 fr.
50,001- 80,000..... "	2/10
80,001-110,000..... "	3/10
110,001-140,000..... "	4/10
140,001-170,000..... "	5/10
170,001-200,000..... "	6/10
200,001-230,000..... "	7/10
230,001-260,000..... "	8/10
260,001-290,000..... "	9/10
290,001-320,000..... and over..... "	10/10

## INCOME TAX.

Income.	Rate.	Income.	Rate.
	Per cent.		Per cent.
1-800 fr.....	1/4	5,000-5,500 fr.....	3
800-1,500.....	1/2	5,500-6,000.....	3½
1,500-2,000.....	1	6,000-6,500.....	4
2,000-3,000.....	1½	6,500-7,000.....	4½
3,000-4,000.....	2	7,000-12,000.....	5
4,000-5,000.....	2½	Over 12,000.....	5½

## LUCERNE.—1892.

## PROPERTY TAX.

## INCOME TAX.

Property.	Rate.	Income.	Rate.
From 1,000 to 100,000 fr...1.5 %		From 1,000 to 30,000 fr...1¾%	
From 100,001 to 1,000,000		From 30,001 to 84,000 fr.	
rate raised by 1/10 of 1% for every 100,000 fr.		rate raised 1/10 of 1% for every 6,000 fr.	
Over 1,000,000 fr.....2½%		Over 84,000 fr.....2½%	

These taxes are levied every two years, so that the annual rates are only one-half as large.

## OBWALDEN.—(UNTERWALDEN-LE-HAUT.)—1870.

## INCOME TAX.

Income.	Tax in fr.	Income	Tax in fr.
500 fr.....	0.50	800 fr.....	1.20
600 .....	0.70	900 .....	1.50
700 .....	1.	1,000 .....	2.
		From 1,000-2,900 fr. 1/2 of 1 per cent.	
		Over 3,000 fr. 1 per cent.	

The above rates are payable for each  $\frac{1}{2}$  of 1 per cent levied as property tax. In the last two classes 400 fr. may be deducted.

**ST. GALLEN.—(ST. GALL.)—1863.**

**INCOME TAX.**

For each 1 per mill of property.

Income.	Tax.	Income.	Tax.
800- 999 francs.....	1 fr.	5,500- 5,999.....	63 fr.
1,000-1,499.....	2	6,000- 6,499.....	76
1,500-1,999.....	4	6,500- 6,999.....	90
2,000-2,499.....	7	7,000- 7,499.....	105
2,500-2,999.....	II	7,500- 7,999.....	121
3,000-3,499.....	16	8,000- 8,499.....	138
3,500-3,999.....	22	8,500- 8,999.....	157
4,000-4,499.....	30	9,000- 9,499.....	177
4,500-4,999.....	40	9,500-10,000.....	200
5,000-5,499.....	51	Over 10,000.....	2½ per ct.

**SCHAFFHAUSEN.—(SCHAFFHOUSE)—1879.**

**PROPERTY AND INCOME TAX.**

	Francs.		Per cent.
When the tax varies from 26- 50 an addition is made of 5			
" " 51- 75	" "	" "	10
" " 76-100	" "	" "	15
" " 101-150	" "	" "	20
" " 151-200	" "	" "	25
" " 201-250	" "	" "	30
" " 251-300	" "	" "	35
" " 301-400	" "	" "	40
" " 401-500	" "	" "	45
Over 500	" "	" "	50

**SOLOTHURN.—(SOLEURE)—1895.**

**PROPERTY AND INCOME TAX.**

**PROPERTY TAX.**

The rate is  $\frac{1}{2}$  of 1%.

When tax is under 20 fr. the addition is 0

" " 20- 30	" "	" "	10%
" " 30- 40	" "	" "	20%
" " 40-140	" "	" "	10% for each 20 fr. tax.
" " 140-200	" "	" "	10% " " 30 " "
" " over 200	" "	" "	tax is doubled.

**INCOME TAX.**

The rate is 1%. The progression is as in the property tax.

## THURGAU.—(THURGOVIE.)—1849.

## INCOME TAX.

Income.	Tax in fr.	Income.	Tax in fr.
Under 200 fr.....	.35	1,101-1,400.....	6
201- 400.....	.55	1,401-1,700.....	10
401- 600.....	1.	1,701-2,000.....	16
601- 800.....	.2.	2,001-2,300.....	23
801-1,100.....	.4.	2,301-2,600.....	30

Over 2,600, 1½ fr. for every hundred fr.

## TICINO.—(TESSIN.)—1864.

## INCOME TAX.

For the first Francs	For excess Per cent.
From 400- 800 fr.....	400..... 1..... ¼
" 801- 1,200.....	800..... 2..... ½
" 1,201- 2,000.....	1,200..... 4..... ¾
" 2,001- 3,000.....	2,000..... 10..... 1
" 3,001- 5,000.....	3,000..... 20..... 1½
" 5,001-10,000.....	5,000..... 50..... 2
" 10,001-20,000.....	10,000..... 150..... 3
" 20,001-40,000.....	20,000..... 450..... 4
Over 40,000.....	40,000..... 1,250..... 5

## URI.—1886.

## PROPERTY AND INCOME TAX.

Property.	Tax.	Income.	Tax.
2,000- 30,000 fr...	.50 fr. per 1,000	Up to 1,000 fr...	.25 fr. per 1,000
30,001- 50,000 ....	.60	1,001- 2,000 ....	.35
50,001- 80,000 ....	.70	2,001- 3,000 ....	.45
80,001-100,000 ....	.80	3,001- 4,000 ....	.60
100,001-150,000 ....	.90	4,001- 5,000 ....	.80
150,001-200,000 ....	1.00	5,001- 6,000 ....	1.00
200,001-250,000 ....	1.10	6,001- 7,000 ....	1.20
250,001-300,000 ....	1.20	7,001- 8,000 ....	1.40
300,001-350,000 ....	1.30	8,001- 9,000 ....	1.60
350,001-400,000 ....	1.40	9,001-10,000 ....	1.80
Over 400,000 ....	1.50	Over 10,000 ....	2.00

## VAUD.—(WAADT.)—1886.

## PROPERTY AND INCOME TAX.

Personal Property.	Rate Per Cent.	Real Property	Rate Per Cent.	Income.	Rate Per Cent.
I- 25,000 fr... I	I- 25,000 fr... I			I- 1,250 fr... I	
25,001- 50,000 .... 1½	25,001-100,000 .... 1½			1,251- 2,500 .... 1½	
50,001-100,000 .... 2	over 100,000 .... 2			2,501- 5,000 .... 2	
100,001-200,000 .... 2½				5,000-10,000 .... 2½	
200,001-400,000 .... 3				10,001-20,000 .... 3	
400,001-800,000 .... 3½				20,001-40,000 .... 3½	
Over 800,000 .... 4				Over 40,000 .... 4	

## ZUG.—1896.

## PROPERTY TAX.

Property from 1,000–100,000 francs pays the simple rate. Above 100,000 francs, the property is put in classes of 100,000 francs each, so arranged that in each class every 1,000 francs pays  $\frac{3}{4}$  franc more than in the preceding class. Thus—

if	100,000	francs..pay..1	franc per 1,000	francs.
then	101,000–200,000	" .. " .. $1\frac{3}{4}$	" "	"
"	201,000–300,000	" .. " .. $1\frac{1}{2}$	" "	"
"	301,000–400,000	" .. " .. $1\frac{3}{4}$	" "	"
"	over 400,000	" .. " .. 2	" "	"

## INCOME TAX.

If the rate of the property tax is one per mill,

Income. Tax.

I— 500 francs.....	pay.....	1 franc per 100 francs.
500–1,000 francs.....	pay.....	$1\frac{1}{4}$ francs per 100 francs.
1,000–7,000 francs.....	rate increases 25 centimes per each 1,000 fr.	
Over 7,000 francs.....	pay.....	3 francs per 100 francs.

## ZURICH.—1870.

## PROPERTY AND INCOME TAX.

## Property.

Of the first 20,000 francs.....	$5/10$ are assessed.
" next 30,000 "	$6/10$ "
" " 50,000 "	$7/10$ "
" " 100,000 "	$8/10$ "
" " 200,000 "	$9/10$ "

Of the surplus.....the whole is assessed.

## Income.

Of the first 1,500 francs.....	$2/10$ are assessed.
" next 1,500 "	$4/10$ "
" " 3,000 "	$6/10$ "
" " 4,000 "	$8/10$ "

Of the surplus .....the whole is assessed.

It is evident from these tables that there is a great diversity in the practical application of the progressive system to property and income taxes in Switzerland. Some cantons apply it to local taxes, others declare that local taxation should be proportional; some have a slight graduation, others a sharp progression; some apply it to one tax only, others to both taxes. In no two cantons are the rates or the classification identical. The following table shows the rate of progression in various cantons:

## INCOME TAX (ON LABOR INCOMES).

Canton.	Rate of Tax on Income of					Rate of tax on 1,000,000 fr. is great- er than that on 10,000 fr. by	Rate of tax on 1,000,000 fr. is great- er than that on 100,000 fr. by
	%	fr. 10,000	fr. 50,000	fr. 40,000	fr. 100,000		
Freiburg .....	1.75	2.1	2.1	2.45	2.45	1.4 times	1.4 times
Bern .....	1.2	2.1	2.55	2.82	2.98	2.35 "	2.48 "
Obwald .....	0.12	0.24	0.34	0.5	0.59	4.17 "	4.92 "
Zug .....	0.4	1.05	1.7	2.82	2.98	7.05 "	7.45 "
Zurich .....	0.8	1.2	2.4	4.4	7.63	5.5 "	9.04 "
Vaud .....	0.29	0.63	1.13	1.81	3.44	6.24 "	11.86 "
Graubünden ..	0.6	1.05	2.28	5.91	10.47	9.85 "	17.45 "
Uri .....	0.0075	0.23	0.49	1.07	1.98	22.27 "	26.4 "

## GENERAL INCOME TAXES.

Baselland ....	0.5	0.5	0.7	1.6	2.	3.6	"	4.0	"
Solothurn ....	0.2	0.46	0.69	0.98	1.4	4.9	"	7.	"
Ticino .....	0.6	1.4	2.5	5.	11.8	8.3	"	27.3	"
Baselstadt ....		0.6	1.	1.8	4.6				

Some cantons exempt a minimum of subsistence, some pursue the policy of abatements and allowances, some tax all property or income but according to different rates. Some cantons levy a fixed poll tax while others levy a graduated poll tax, the amount of the tax increasing with the progression in the property and income taxes. Whatever the minor differences, however, the tendency is everywhere toward the spread of the progressive principle and the increase of the scale of progression. The constitutional provision in some of the cantons that the progression should be a "moderate" one, is of little use in view of the elasticity of the term "moderate." As an actual fact, the highest rates do not generally exceed four or five per cent of the income, but in a few cantons like Glarus, Uri, Vaud and Baselstadt the rates are as high as six, seven and even ten per cent. That the number of persons assessed at the higher rates is very small is indeed true; and it may also be concluded

that the yield of the progressive taxes is in general very little more than would be the yield of simple proportional taxes. The opponents, however, of the progressive principle, like Leroy-Beaulieu, forget that it is the function of progressive taxation not so much to obtain increased revenues as to apportion the burden more equably among the taxpayers. If the progressive tax is more just than the proportional tax, the fact that it would not yield a penny more revenue would in itself constitute no valid objection.

A more serious practical objection is the tendency to produce evasion, fraud or exodus of capital. It is questionable, however, whether this objection has not been somewhat exaggerated. The danger is undoubtedly a real one, but there is actually far more evasion, fraud and exodus of capital under the system of the proportional property tax in America than under the system of the progressive property and income taxes in Switzerland. Those who will defraud the government or abandon their home because of tax rates are apt to do so at all events, provided the tax is high enough; and it has yet to be proved that a moderate progression will of itself bring about such baneful results. Certainly the experience of Switzerland seems to point in the other direction. Statistics of evasion or exodus of capital are unattainable or worthless; but in all the important cantons which practice progressive taxation, there has been a steady increase in the total valuation of property and income.<sup>11</sup>

The very spread of the progressive system in recent years shows at all events that the Swiss cantons have not yet begun to experience any of the injurious consequences

<sup>11</sup> In Zürich, *e. g.*, the assessed property had increased between 1870-1899 from 627 to 906 million francs, the assessed income from 43 to 88 millions. Schanz, ii, p. 416. Similar figures might be given for the other cantons, which practice the progressive system. Cf. Cérenville, *op. cit.*, pp. 175-181

which have been predicted for the last few decades. In those very cantons where the opposition was at first the loudest, the satisfaction is now general. There is no question of abandoning the vantage ground already won. As Switzerland is the most democratic country in Europe, so is it also the most striking example of the progressive system.

Furthermore, in addition to the general property and income taxes, almost all the Swiss cantons levy inheritance taxes, which are progressive in nine cases.<sup>12</sup> In Baselland the rates are increased one-tenth in each class until amounts in excess of 400,000 fr. pay two and one-half times the normal rate. In Bern on any excess above 50,000 francs the rate is increased one-half. In Glarus and Zug the rates increase by arithmetical progression, the additional increments never exceeding one per cent in Glarus and two per cent in Zug. In Solothurn the basic rates of three to twelve per cent, arranged according to relationship, apply to inheritances between 100 and 5,000 francs; below 100 francs only half the rate is applied; from 5,000–20,000 francs the rates are increased by one-fourth for every 5,000 francs. In Thurgau inheritances over 6,350 francs pay one-fourth more; over 12,700 francs one-half more; over 19,000 francs three-fourths more; over 25,000 double rates. In Zürich the rate increases one-tenth for each 10,000 francs until it becomes half as large again as the regular rate. In Uri the rate increases one-tenth for each 10,000 francs up to 200,000 francs, so that the tax on 200,000 francs would be triple the original rate. As the basic rates vary from one per cent for brothers and sisters to twenty-five per cent for distant relatives, this means that the maximum

<sup>12</sup>Cf. the details in Schanz, *op. cit.*, i, p. 158, and later details in West, *The Inheritance Tax*, 2d ed., 1908, pp. 42-44. Cf. also Cérenville, *op. cit.*, p. 215.

rate is seventy-five per cent, the highest figure to be found in any country. This rate applies, however, only to intestate successions, and as wealthy people do not usually die intestate, the law is really only a paper enactment. As a matter of fact, the maximum rate has never been enforced. In Schaffhausen the rates increase one-tenth for inheritances between 2,000 and 10,000 francs and one-tenth for each additional 10,000 francs up to 90,000 francs. Above that sum inheritances pay double rates.

In the following tables will be found the rates of the inheritance tax in the principal cantons.<sup>18</sup>

	Near relatives per cent.	More dist. relatives per cent.	Most dist. relatives per cent.	Strangers per cent.	Max. rates applicable on sums exceeding
Bern .....	1 .... 1½	2.... 6	6.... 9	10....15	fr. 10,000
Glaris .....	½....4	4.... 8	6....12	10....20	100,000
St. Gall .....	½....6	4....12	6....18	10....30	
Solothurn ....	3 ....6	9....18	10½....21	10....24	4,000
Schaffhausen .	2 ....4	4.... 8	6 ..12	10....20	18,000
Thurgau .....	2 ....4	3.... 8	5 ..10	6....12	5,000
Uri .....	1½....6	2.... 6	3 .. 9	25....75	40,000
Zug .....	½....2½	1.... 3	2.... 4	8....10	20,000
Zurich .....	2 ....3	6.... 9	10....15	10....15	10,000

<sup>18</sup> Compiled from Schanz, *Die Steuern der Schweiz*, i, pp. 155-160.

### § 10. *Holland.*

In Holland, up to 1892, the only example of progressive taxation for state purposes was a poll tax levied according to a graduated scale upon furniture, valuables, horses and mortgages. In 1892 and 1893 there was introduced a progressive system in a new combination of the property and income tax.<sup>1</sup> The arrangement for progressive rates is as follows:

Property under 13,000 florins is practically exempt; from 13,000 to 14,000 fl. the tax is 2 fl.; from 14,000 to 15,000 fl. it is 4 fl. If the property exceeds 15,000 fl. but is less than 200,000 fl., the tax is 1.25 per mill for the surplus over 10,000 fl. Property of 200,000 fl. would therefore be taxed 237½ fl. For every 1,000 fl. above 200,000 fl. there is an additional tax of 2 fl. In other words, there is a deduction in all cases for a certain part of the property (10,000 fl.); there is a complete exemption for a minimum of subsistence (13,000 fl.), and an abatement for a somewhat larger amount (15,000 fl.); and finally there is a slightly progressive rate. For if income on property is reckoned as four per cent, the property tax of 1.25 per mill (on sums below 200,000 fl.) equals an income tax of three and one-eighth per cent; while a property tax of two per cent (on sums above 200,000 fl.) equals an income tax of five per cent. Owing to the deduction of 10,000 fl., as well as to the complete exemption of 13,000 fl. and the abatements for 13,000 fl. and 14,000 fl., the property tax computed as an income tax would vary from zero to almost five per cent. This will be seen from the following table:

<sup>1</sup> For details as to the discussions leading up to this tax, see Seligman, *Essays in Taxation*, 5th ed., 1905, pp. 322-330; and also E. M. Bossevain, in Schanz, *Finanz Archiv*, vol. xi, (1894), pp. 419-746, *et seq.*

Property fl.	Tax fl.	Amount Per Mill	Percentage of Income
12,000	0.	0.	0.
13,000	2.	0.15	0.37
14,000	4	0.29	0.72
15,000	6.25	0.41	1.02
20,000	12.50	0.62	1.55
25,000	18.75	0.75	1.87
50,000	50.00	1.00	2.50
100,000	112.50	1.12	2.80
150,000	175.00	1.17	2.92
200,000	237.50	1.19	2.97
210,000	257.50	1.23	3.07
220,000	277.50	1.26	3.15
250,000	337.50	1.35	3.37
500,000	837.50	1.67	4.19
1,000,000	1,837.50	1.84	4.59
3,000,000	5,837.50	1.95	4.86
5,000,000	9,837.50	1.97	4.92
10,000,000	19,837.50	1.98	4.96
20,000,000	39,837.50	1.99	4.98

In the income tax it was proposed to observe the same principle of graduation, but the rate was to be less. Since 200,000 fl. are equivalent to 8,000 fl. income, the original plan was to tax incomes from labor above a certain minimum two per cent up to 8,000 fl., and three and one-fifth per cent above that, instead of the three and one-eighth per cent and five per cent rates of the property tax. That is, incomes from labor were to be taxed three-eighths less than incomes from property. It was decided, however, to make the minimum of subsistence higher in the income tax than in the property tax; partly because of the existence of indirect taxes, partly for other reasons. The consequence was the necessity of two schedules in the income tax, one for incomes from labor alone, and one for the incomes of taxpayers already subjected to the property tax. In the former case the tax is levied only on the surplus above 650 fl.; but as the property tax is levied only on the surplus above 10,000 fl. (which corresponds to an income of 400 fl.), the tax on incomes from property

is levied on the surplus above 250 fl. (or the difference between 650 fl. and 400 fl.). The higher rate, therefore, begins in this case not with 8,000 fl. (as in the case of labor incomes), but with 8,200 fl. This would result in the following schedules, which, although seemingly complicated, are the results of simple computations:

Incomes from labor income	Schedule A		Schedule B (for those liable also to the property tax)	
	Tax (in florins)	When property amounts to 13,000 fl. or 14,000 fl.	Income	Tax (In florins)
650- 700..... 1.	250- 300..... 2.	250- 300..... 1.25	250- 300..... 1.25	
700- 750..... 2.	300- 350..... 2.75	300- 350..... 2.	300- 350..... 2.	
750- 800..... 2.75	350- 400..... 3.50	350- 400..... 2.75	350- 400..... 2.75	
800- 850..... 3.50	400- 450..... 4.25	400- 450..... 3.50	400- 450..... 3.75	
850- 900..... 4.25	450- 500..... 5.	450- 500..... 4.25	450- 500..... 4.25	
900- 950..... 5.	500- 550..... 5.75	500- 550..... 5.	500- 550..... 5.	
950-1000..... 5.75	550- 600..... 6.50	550- 600..... 5.75	550- 600..... 5.75	
1000-1050..... 6.50	600- 650..... 7.25	600- 650..... 6.50	600- 650..... 6.50	
1050-1100..... 7.25	650- 700..... 8.	650- 700..... 7.25	650- 700..... 7.25	
1100-1150..... 8.	700- 750..... 8.75	700- 750..... 8.	700- 750..... 8.	
1150-1200..... 8.75	750- 800..... 9.50	750- 800..... 8.75	750- 800..... 8.75	
1200-1250..... 9.50	800- 850..... 10.25	800- 850..... 9.50	800- 850..... 9.50	
1250-1300..... 10.25	850- 900..... 11.	850- 900..... 10.25	850- 900..... 10.25	
1300-1350..... 11.	900- 950..... 11.75	900- 950..... 11.	900- 950..... 11.	
1350-1400..... 11.75	950-1000..... 12.50	950-1000..... 11.75	950-1000..... 11.75	
1400-1450..... 12.50	1000-1050..... 13.25	1000-1050..... 12.50	1000-1050..... 12.50	
1450-1500..... 13.25	1050-1100..... 14.	1050-1100..... 13.25	1050-1100..... 13.25	
1500-1600..... 14.	Over 1050..... 14 +	1100-1200..... 14.	1100-1200..... 14.	
1600-8200..... 14 +	2 florins for every	Over 1100..... 14 +	2 florins for every	

2 per cent on sur- plus over 1500 fl.

Over 8200 fl., 148 fl. + 3.20 per cent. on surplus over 8200 fl.

hundred florins on surplus over 1050 fl.

But if the income, together with 4 per cent. on the taxable property, exceeds 8150 fl., a tax of 1.20 per cent. is payable on the excess.

2 florins for every hundred florins on surplus over 1100 fl.

But if the income, together with 4 per cent. on the taxable property, exceeds 8200 fl., a tax of 1.20 per cent. is payable on the excess.

When property exceeds 200,000 fl., the tax is 3.20 on every hundred florins income over 200 fl.<sup>2</sup>

<sup>2</sup>For a discussion of certain changes which are being suggested

The progressive principle has also been applied to the local income tax in Holland. Commencing with the year 1851 the communes were given a rather wide latitude in matters of taxation. In 1865, however, the communal excises were abolished and several years later the local share in the commonwealth poll tax was restricted. This led the local bodies to seek a compensation in the imposition of an income tax, and especially in the poorer provinces, like Groningen and Friesland, the progressive principle was welcomed. The graduation was frequently very marked. For instance, in Amsterdam the incomes were divided into five classes; in the first two classes the incomes were taxed on one-quarter of the assessed valuation; in the next two classes on one-half and in the next class on three-quarters of the assessed valuation. Moreover, in considering the assessed valuation the minimum of each class was taken as the basis. It is the Athenian and the Zürich plan with a slight alteration. In the town of Terneuzen, on the other hand, where the number of the classes is much larger, the rate itself varied—the first class, from 300-399 florins, paying one-half of one per cent tax; the second class, from 400-549 florins, five-eighths of one per cent, and thus gradually increasing until the nineteenth class, with incomes of 7,000 florins and over, paid four per cent.<sup>8</sup>

The system of progression was pushed to such an extreme, however, that it led to a reaction. After much discussion the law of 1897 was enacted, which virtually prohibited any departure from proportional taxation, with the exception that an amount representing the minimum

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in the present system of progressive taxation in Holland, see an article by N. G. Pierson, "The Income Tax in Holland," *Economic Journal*, xvii (1907), p. 417.

<sup>8</sup>Denis, *L'Impôt sur le Revenu. Rapports et Documents présentés au . . . Conseil Communal de Bruxelles* (1881), p. 45.

of subsistence might be exempted in all cases, and with a further exception, which can best be put in the words of the law itself:

"In levying a capitation or other direct income tax, no revenue may be left out of calculation, nor be calculated or estimated under their real amount, except in so far as in the case of variable incomes a mean value out of two or more years may be computed.

"The amount of the tax must be the same percentage for all incomes, after deduction from all incomes of a sum necessary for livelihood, equal for all incomes or varying only according to the construction of the family. Deviation from this rule is permitted if existing regulations or special circumstances make such deviation desirable, and on condition that the distribution of charges do not vary considerably from that which would be obtained by adhering to the said rule.<sup>4</sup>

In 1900, however, the liberals, who had been responsible for the general legislation of 1892, returned to power, and the rigor of the prohibition of 1897 was somewhat relaxed, without, however, restoring to the localities the complete freedom which they had previously enjoyed in the matter of progressive scales. The latitude which the localities now enjoy, however, has been sufficient to prevent any serious complaint on either side.

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<sup>4</sup> See the article by A. J. Cohen-Stuart, "Progressive Taxation in Holland," *Economic Journal*, viii (1898), pp. 328-332.

### § 11. Denmark, Sweden and Norway.

In Denmark and Sweden the progressive principle has been accepted to a certain extent. In the Scandinavian countries it has been introduced only recently. In Denmark the law of 1903 imposed, for general state purposes, an income tax with a supplementary property tax. The property tax is proportional at the rate of 0.6 per mill. The income tax is progressive at the following rates:<sup>1</sup>

Income (Kroner)	Rate (%)	Income (Kroner)	Rate (%)
Under 2,000.....	1.3	15,000- 20,000.....	2.
2,000- 3,000.....	1.4	20,000- 30,000.....	2.1
3,000- 4,000.....	1.5	30,000- 40,000.....	2.2
4,000- 6,000.....	1.6	40,000- 50,000.....	2.3
6,000- 8,000.....	1.7	50,000-100,000.....	2.4
8,000-10,000.....	1.8	100,000 or over.....	2.5
10,000-15,000.....	1.9		

The interesting feature of the Danish income tax is that the minimum exemption varies with the character of the district. In Copenhagen the exemption is 800 kroner, in market towns it is 700 kroner, and in rural districts only 400 kroner. In the case of the local income taxes, which are somewhat older, however, there is no exemption at all.<sup>2</sup>

In Sweden the law of 1897, amended in 1902, imposes a progressive income tax for general state purposes. The arrangement is as follows: Incomes below 1,000 kroner

<sup>1</sup> See *Reports from His Majesty's Representatives abroad respecting Graduated Income Taxes in Foreign States*, 1905, English Blue Book, Command Papers 2587, pp. 100 et seq.

<sup>2</sup> Cf. *Report on the Danish System of Taxation*, Foreign Office, Misc. Series, 1907, no. 659. For the earlier rates in some of the local income taxes, see the U. S. *Consular Reports on Taxation*, nos. 99-100 (1888), p. 326.

(\$275), are exempt; incomes from 1,000 to 4,000 kroner are taxed on only a portion of the full amount according to a progressive scale; from 4,000 to 6,100 kroner they are taxed on the full amount; above 6,100 kroner they are taxed on more than the actual amount, according to an ascending scale up to a maximum of 145,500 kroner, which sum is assessed as equivalent to 582,000 kroner, *i. e.*, four times the real income. The normal rate of the tax is one per cent on the assessed income, so that the highest actual rate would be four per cent.<sup>3</sup>

In Sweden there is also a progressive income tax; but this is rather in the nature of a system of progressive fees than a real tax.

In Norway we find both a progressive income tax and a progressive inheritance tax. The income tax is graduated according to the following scale:

Incomes	rate
1000 kroner.....	exempt
1000- 4000 kroner.....	2%
4000- 7000 " .....	3%
7000-10000 " .....	4%
Over 10000 " .....	5%

Up to 4,000 kroner only a part of the income is taxable, varying according to the number of persons dependent on the tax payer. Over 4,000 kroner an exemption of from 600 to 1,800 kroner is allowed, varying according to the number of dependent persons.

The supplementary property tax, known as the Formneskat, is not progressive, being at the rate of one-third of one per mill. There are, however, also local income taxes.<sup>4</sup> Finally, it must be mentioned that the Nor-

<sup>3</sup> *Reports from His Majesty's Representatives abroad respecting Graduated Income Taxes in Foreign States, 1905*, p. 116. The exact scale will be found on pp. 118-119.

<sup>4</sup> *Op. cit.*, pp. 121-122.

wegian inheritance tax law of 1905 imposed rates rising from one per cent to four per cent in the case of children, and reaching ten per cent in the case of distant relatives.<sup>5</sup>

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<sup>5</sup> Schanz, *Finanz Archiv*, xxiv, (1907), p. 194.

## § 12. France.

After the sad experience with the forced loans at the end of the eighteenth century, the history of which has been recounted above, nothing more is heard of progressive taxation in France until the Revolution of 1848. Early in that year the provisional government adopted a declaration that the tax system ought to aim at a more equitable distribution of the burdens.<sup>1</sup> A little later in the same year the government issued a decree stating that in order to bring about really equitable taxation, the progressive principle ought to be adopted.<sup>2</sup> Oddly enough, however, although this proposition was framed by the Minister of Finance, Garnier-Pagès, who repeated the assertion later, the taxes that were actually imposed were all proportional. A few months subsequently the new Minister of Finance, Godchaux, proposed a progressive inheritance tax.<sup>3</sup> But this also failed of adoption, largely owing to the objection of de Parieu, the chairman of the committee.<sup>4</sup>

Until recently, the chief instance of progressive taxation in France was to be found in the rental or occupancy tax paid by the tenant. It is a curious provision of the French system of local taxation, recalling the mediæval

<sup>1</sup> "Que le système de taxe de la République Française doit avoir pour objet une répartition plus équitable des contributions publiques."—Decree of Feb. 29.

<sup>2</sup> "Avant la Révolution, l'impôt était proportionnel, donc il était injuste. Pour être réellement équitable, l'impôt doit être progressif."—Decree of April 20th. For the fiscal history of the revolution see Du Puynode, *L'Administration des Finances en 1848-1849*, (1849), pp. 65-78.

<sup>3</sup> David, "Du Projet de Décret relatif à l'Établissement d'un Impôt Progressif sur les Successions." *Journal des Economistes*, 1848, p. 25.

<sup>4</sup> For his views, see below, Part II. Cf. also Vautier, *L'Impôt Progressif*, p. 9; and De Retz de Serviez, *op. cit.*, pp. 118-125.

English *firma burgi*, that according to a law of 1846 the *taxe personnelle et mobilière* might be assumed in a lump sum by the cities, and that the amount might be defrayed in part out of the proceeds of the *octroi* or local customs duties. The remainder was to be raised by a tax on rentals, which was made progressive, partly for the reason, already mentioned, that the greater the income the smaller relatively is the amount spent for house rent,<sup>5</sup> partly in order to compensate the lowest classes for the burdens of the *octroi*, which they were deemed in great part to bear. Several of the French towns adopted this plan. The houses were arranged in classes according to the rental value. Below a certain figure they were entirely exempt. In the other classes the rate was graduated up to a definite maximum. In Paris the progression ended very soon. Houses with rentals below 500 francs were entirely exempt (with some minor exceptions). In the other classes the rate was fixed differently every year according to the needs of the city treasury. In 1890, houses with rentals up to 599 francs paid 6½ per cent, to 699 francs 7½ per cent, to 799 francs 8½ per cent, to 899 francs 9½ per cent, to 999 francs 10½ per cent, to 1099 francs 11½ per cent, and above 1100 francs 11.72 per cent.<sup>6</sup> In 1888 a bill was introduced by the government generalizing this tax and greatly ex-

<sup>5</sup> See above, p. 28.

<sup>6</sup> The rate for the last class varied from year to year, according to the *centimes additionels*. The figure in the text is for the year 1891. In 1892 it was 12.04% and in 1893 12.23%. See Stourm, *Systèmes Généraux d'Impôts*, 1893, p. 230. Cf. *Dictionnaire des Finances*, by Léon Say, ii, p. 854, *sub verbo* "Personnelle-mobilière." The figures and statements contained in Wagner, *Finanzwissenschaft*, iii, p. 461, which are copied in the article by Heckel in the *Handwörterbuch der Staatswissenschaften*, iv, (1892), p. 1182, are incorrect. They are all based on antiquated material. Formerly many towns pursued this practice. In 1890 only Paris and Versailles remained.

tending the progression as well as the classification. But it was abandoned.

In 1900, when the *octroi* on certain drinks was suppressed, Paris abandoned the progressive scale; but the law permitted the introduction of a slightly less progressive tax. Rentals under 500 francs were to be exempt, and on rentals above this figure the "assessable rental" (*loyer matriciel*) was to be reached by deducting from the actual rental a sum which, however, could never exceed 375 francs. That is, in the case of a small rental of say 750 francs, one-half was deducted; while in the case of a rental of say 3,750 francs, only one-tenth was deducted. The law of 1903 authorized all departmental capitals and all communes of over 5,000 population to adopt this system, leaving the figures, however, to be fixed by them. The law of 1904 engrafted on this principle another, designed to reduce the tax in the case of large families. The deduction might be increased one-tenth for every dependent person<sup>7</sup> after the first, provided that the total deduction did not exceed double the minimum rental. This is the rule now in force in Paris and in several other cities.<sup>8</sup>

Since 1901 France has also a progressive inheritance tax. In that year the tax, which until then had been graduated only according to relationship, was graduated according to the amount of the inheritance as well, and

<sup>7</sup> Dependent persons (*personnes à la charge du contribuable*) are defined to be "enfants ayant moins de 16 ans revolus, les descendants agés ou infirmes, les enfants orphelins ou abandonnés et par lui recueillis."

<sup>8</sup> Cf. E. Allix, *Traité Élémentaire de Sciences des Finances et de la Législation Financière Française*, pp. 384-5; Boucard et Jèze, *Éléments de la Science des Finances et de la Législation Financière Française*, 2nd ed., (1902), ii, pp. 895 et seq.; and *Cours Élémentaire de Science des Finances et de Legislation Financière Française*, (1904), pp. 345 et seq.

was arranged in eight classes, the highest class representing inheritances of over 1,000,000 francs. In 1902, five additional classes, with higher rates, were added; the highest class now representing inheritances of over 50,000,000 francs. The minimum and maximum rates are as follows:

Relationship	First Class	13th Class
	Up to 2000 fr.	Over 50,000,000 fr.
Direct line .....	1%	5%
Husband or wife.....	3.75	9
Brothers and sisters.....	8.50	14
Uncles and aunts, nephews and nieces .....	10	15.50
Grand uncles and grand aunts, grand nephews and grand nieces, and cousins german	12	17.50
Relatives of the 5th and 6th degree .....	14	19.50
Relatives beyond the 6th de- gree and strangers in blood	15	20.50 <sup>b</sup>

For the sake of completeness, it might be added that in a few of the schedules of the *impôt des patentés* or business tax we find a slight graduation in the scale, according to the number of employees, the amount of the transaction, etc. But the graduation is so slight that it deserves only a mere mention.

On the other hand, the income tax projects, which are being so hotly discussed in France at present, contain some interesting progressive features, but at this date (1908) none of the bills has yet been enacted into law.<sup>10</sup>

<sup>a</sup>For details, see West, *The Inheritance Tax*, 2nd ed. (1908), pp. 25-26; Boucard et Jèze, *Cours Élémentaire*, 1904, pp. 328 *et seq.*

<sup>b</sup>The best survey of the recent projects will be found in Gaston-Gros, *L'Impôt sur le Revenu*, 1908. Cf. also *Revue de Science et de Législation Financière*, 1903, p. 522; 1904, p. 509; 1907, p. 407; 1908, *passim*.

### § 13. *Italy.*

In Italy the progressive principle is found in the case of both the income tax and the inheritance tax.

The income tax was introduced in 1864. It was amended several times, but it was not until 1894 that the principles of graduation as well as of differentiation were introduced. The tax is divided into five classes, according to the nature of the income. The differentiation is effected not by making a change in the rate of the tax, but by assessing to the tax different proportions of the true value. The scheme is as follows:

Nature of Income	Amount assessed	Rate of tax on full income
A. Interest on capital owned by estates, etc..	Full rate	20%
B. Interest on private capital.....	30/40	15%
C. Mixed incomes from capital and labor....	20/40	10%
D. Labor incomes .....	18/40	9%
E. Salaries and pensions .....	15/40	7½%

The graduation is accomplished in the following way:

Incomes below 400 lire (\$80) are exempt.

In schedules B and C, incomes from 400 to 800 lire (\$80 to \$160) are subject to abatement as follows:

Income	Abatement
400-500 lire.....	250 lire
500-600 " .....	200 "
600-700 " .....	150 "
700-800 " .....	100 "

In schedule D incomes not exceeding 500 lire enjoy an abatement of 100 lire.<sup>1</sup>

The Italian income tax, although the chief type of the modern system of differentiation, is therefore an example only of slight depression.

<sup>1</sup> The account of the abatements given in the English blue book mentioned above, p. 46, is not quite accurate.

The progressive principle has also been applied to the Italian inheritance tax since 1902. The tax is arranged in seven classes, the lowest class beginning at 300 lire and the highest class including sums of over 1,000,000 lire. In the case of the direct line the rate varies from eight-tenths of one per cent to three and six-tenths of one per cent, growing with the degree of relationship, until in the case of relatives beyond the sixth degree and strangers in blood, the maximum rate in the seventh class reaches twenty-two per cent. The rates apply only to the representative fractions of the inheritance.<sup>2</sup>

<sup>2</sup> West, *The Inheritance Tax*, 2nd ed., (1908), p. 51.

### § 14. *Australasia.*

Recent years have seen a great development in the application of the principle of progression in Australasia. It was there applied first to the inheritance tax, but it has spread of late to other forms of taxation as well, more especially to the land tax and the income tax.

#### (a) *Inheritance Taxes.*

We find a graduated inheritance tax in Victoria as early as 1870; but in most of the other colonies the progressive principle was introduced much later. In Victoria the law of 1892 divided inheritances into thirty-seven classes, with £1,000,000 as a maximum, and with rates from one to ten per cent. In New South Wales the law of 1885 introduced five classes with £50,000 as a maximum, and with rates of from one to five per cent; but in 1891 New South Wales adopted, with a few minor changes, the scale of duties then in force in Victoria. In Queensland, since the law of 1892, there are six classes, with £20,000 as a maximum, and with rates from one to ten per cent. In South Australia the law of 1893 adopted a rather complex progressive scale, with rates varying from one and one-half per cent on inheritances below £500 or £700 respectively, for near relatives, and rising to ten per cent on inheritances of over £200,000. In Tasmania, since 1904 the rate varies from two to ten per cent for direct heirs, and from four to ten per cent for collaterals. In New Zealand the law of 1881 imposed a tax arranged in nine classes, with rates as on the next page:

2% on the first.....	£1,000
3 " " next .....	4,000
4 " " second .....	5,000
5 " " third .....	5,000
6 " " fourth .....	5,000
7 " " third .....	10,000
8 " " fourth .....	10,000
9 " " fifth .....	10,000
10 " " excess above.....	50,000

In 1885 the classes were diminished in number, but the rates were augmented, so that on inheritances up to £1,000 the first £100 paid nothing, and the remainder paid two and one-half per cent; while inheritances between £1,000 and £5,000 paid three and one-half per cent; those from £5,000 to £20,000, seven per cent; and inheritances of £20,000 or over, ten per cent. In several instances strangers in the blood are taxed more severely. In New Zealand, for example, in the case of strangers the graduation extends to thirteen per cent of the inheritance, and in Queensland to twenty per cent.<sup>1</sup>

The chief provisions of the Australasian inheritance tax are reproduced in the following table:<sup>2</sup>

Amount exempted	Near relatives	Distant relatives	Strangers	Maximum rate applica- ble to sums exceeding
New South Wales. £1,000	1- 5%	2-10%	2-10%	£100,000
Victoria ..... 1,000	1- 5%	2-10%	2-10%	100,000
South Australia.... 500	1½-10%	1½-10%	1½-10%	(See note)
Queensland ..... 200	1- 5%	2-10%	4-20%	20,000
West Australia.... 1,500	½- 5%	1-10%	1-10%	100,000
Tasmania ..... 200	2- 6%	2- 6%	2- 6%	500
New Zealand(1904) 100	1½- 5%	2½-10%	2½-10%	20,000

£200,000 for near relatives and £20,000 for distant relatives.

<sup>1</sup> The laws themselves, with full details, will be found in two English White Books on *Graduated Income Taxes in the Colonies*, 1905, Colonial Office, nos. 196 and 282. See also West, *The Inheritance Tax*, 2nd ed. (1908), pp. 66-76. Cf. Coghlan, *Statistical Account of Australia and New Zealand*, published annually, and the new *Official Year Book of the Commonwealth of Australia*, published for the first time in 1908.

<sup>2</sup> Compiled from Coghlan, *Statistical Account of Australia and New Zealand*, 1904.

(b) *Land Taxes.*

Australasia is not only remarkable for possessing the highest graduated inheritance taxes in the world, but it also had, at least up to the year 1908, the distinction of containing the only Anglo-Saxon state which has applied the progressive principle to the property tax. The democratic jealousy of large estates, which is responsible for this movement, was first illustrated in the Victorian land tax.

The Victorian law was enacted in 1877. All estates over 640 acres in size and valued at over £2,500, are taxed one and one-quarter per cent on the capital value after deducting £2,500. The valuation, however, is on a pastoral basis, according to the sheep-growing capacity, irrespective of the value of the land for dairy or agricultural purposes. In this sense the tax may be said to be slightly progressive. The rates are as follows:<sup>3</sup>

Class	Growing sheep per acre	Value per acre
I.....	2 or more.....	£4
II.....	1 $\frac{1}{2}$ .....	3
III.....	I .....	2
IV.....	Under one.....	1

In New South Wales the law of 1895, which is still in force, imposed a proportional tax of one per cent on the unimproved value of the land. In the other colonies, however, the tax is graduated.

In South Australia the law was enacted originally in 1884; but the progressive principle was introduced later. At present the tax on unimproved value of the land is  $\frac{1}{2}$ d. in the pound, with an additional tax of  $\frac{1}{2}$ d. per pound for the unimproved value of the land in excess of £5,000.<sup>4</sup> In the case of absentees who have been away from the

<sup>3</sup> See the *Victorian Year Book*, 1905, p. 138.

<sup>4</sup> Coghlan, *Statistical Account of Australia and New Zealand*, 1904, p. 677.

state more than one year, twenty per cent additional is imposed.

In Tasmania the graduated land tax was introduced in 1902. The rates are as follows:

1/2 d. in the £ on the unimproved value under £ 5,000
5/8 d. " " " " " £ 5,000-15,000
3/4 d. " " " " " 15,000-40,000
7/8 d. " " " " " 40,000-80,000
1 d. " " " " " 80,000 and over

There is also a deduction of ½d. in the pound for mortgages.<sup>5</sup>

It is, however, in New Zealand that we find the most interesting application of the progressive principle to the land tax. By the New Zealand "land and income assessment act" of September 8, 1891, land was divided into fourteen classes. Up to £5,000 value the ordinary penny rate in the pound was levied; for each successive class an additional one-eighth of a penny was imposed, until when the property exceeded £210,000 in value it paid two and three-quarters pence in the pound.<sup>6</sup> In the case of absentees (those absent from, or resident out of, the colony for three years or over) the scale of taxation was increased twenty per cent in each case. A distinction was drawn between the land proper and im-

<sup>5</sup> Coghlan, *op. cit.*, pp. 680, 681.

<sup>6</sup> The rates additional to the normal penny rate were as follows:

Property.	Addition.	Property.	Addition.
£ 5,000-10,000.....	1/8 d.	£ 90,000-110,000.....	1 d.
10,000-20,000.....	2/8	110,000-130,000.....	1 1/8
20,000-30,000.....	3/8	130,000-150,000.....	1 2/8
30,000-40,000.....	4/8	150,000-170,000.....	1 3/8
40,000-50,000.....	5/8	170,000-190,000.....	1 4/8
50,000-70,000.....	6/8	190,000-210,000.....	1 5/8
70,000-90,000.....	7/8	210,000 and over....	1 6/8

For further details and for the purposes of the measure, see the article on "Direct Taxation in New Zealand," by Sir Robert Stout, in the *Sydney Quarterly*, March, 1892. Cf. also C. Dilke, *Problems of Greater Britain*, i, p. 229.

provements. In the case of the ordinary penny rate, improvements up to £3,000 were exempt, and the amount of any outstanding mortgage was deducted, the mortgage being assessed to the mortgagee. When the value of the land, less such improvements and mortgages, did not exceed £1500, an exemption of £500 was allowed, after which the amount of the exemption diminished one pound for every two pounds increase in the assessed value of the land, so as to leave no exemption when the value exceeded £2,500. An important feature of the law was that the graduated system applied only to the unimproved value of the land. As to improvements, the tax was proportional. It is further to be noted that while in the case of the penny rate a deduction was made for mortgages on the land, no such deduction was made in the case of land upon which a graduated tax was payable, in so far as such graduated tax is concerned. Mortgagees, moreover, were never liable to the graduated tax.

In 1903 the graduated land tax was increased to three per cent and on the lower class the rate was reduced. The scale now rose from 1/16d. to 3d. The rates were as follows:

From £5,000—	7,000	the rate was 1/16d.
7,000—15,000	"	rises 1/16d. for each £2,000
15,000—30,000	"	1/16d. " " 2,500
30,000—210,000+	"	1/16d. " " 5,000

reaching 3d. at £210,000, and remaining at that figure, *i. e.*, one and one-quarter per cent. Absentees, who were now declared to be those absent from the state for at least one year, were taxed fifty per cent additional.<sup>7</sup>

In 1907 the rates were further increased. Up to £40,000 the old rates were continued, the rate on land of £40,000 to £41,000 unimproved value being eight s. per

<sup>7</sup> See details in Coghlan, *A Statistical Account of Australia and New Zealand*, 1904, p. 686.

£100 (or what is equivalent to two-fifths of one per cent) ; for every additional £1,000 the rate is augmented by one-fifth of a shilling, the rate reaching a maximum at £200,000, when it amounts to £2 per £100, *i. e.*, two per cent. After 1910, however, the new progressive scale on land over £40,000 is to be increased by twenty-five per cent in the case of all land other than "business premises," so that the maximum rate will be two and one-half per cent in place of the original one and three-fourths per cent. This is in addition to the one per cent proportional land tax. Moreover, absentees are now taxed fifty per cent higher, and are now defined as all those who have not been personally present for at least one-half of the period of four years immediately preceding the year of assessment.<sup>8</sup>

In 1907 the land tax, both proportional and graduated, yielded only £147,342, or less than five and one-half per cent of the total revenue.<sup>9</sup>

#### (c) *Income Taxes.*

In addition to the progressive inheritance tax and progressive land tax, we also find in Australasia progressive income taxes.

Victoria first imposed an income tax in 1895 for three years. £200 were uniformly exempted except in the case of absentees. In the case of incomes from personal exertion, the progressive rates were fixed as follows :

- 4d. in the pound on the first £1000 over the exemption.
- 6d. " " " next 1000 " " "
- 8d. " " " all incomes over £2200.

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<sup>8</sup> For details see *New Zealand Official Year Book*, 1907, p. 642. For the earlier history of the land tax, see the article "Taxation of Land Values in Australasia," *The Economic Journal*, xiv (1904), p. 401.

<sup>9</sup> *New Zealand Official Year Book*, 1907, p. 510.

On incomes from property the rates were doubled. The scale of progression was changed in 1903, in 1904, and again in 1905. The 1905 scale, in the case of incomes from personal exertion is as follows:

3d.	in the pound up to £500
4d.	" " " 500 to 1000
5d.	" " " 1000 to 1500
6d.	on incomes over 1500

In the case of property incomes, however, double rates are assessed. The minimum amount taxable is £157, there being an exemption of £100 on incomes between £157 and £500.<sup>10</sup>

In Queensland the income tax law of 1902 was amended in 1904 so as to provide for the following rates:

On incomes from personal exertion, £100 are exempt.

Incomes from £100 to 125 pay a fixed sum of 10 s.

Incomes from £125 to 150 pay a fixed sum of £1.

On incomes from £150 to 300 the rate is 6d. on every pound in excess of £100.

On incomes from £300 to 500 the rate is 6d. in the pound without exemption.

On incomes from £500 to 1000 the rate is 6d. in the pound for the first £500 and 7d. in the pound on the surplus.

On incomes from £1000 to 1500 the rate is 7d. in the pound for the first £1000 and 8d. in the pound on the surplus.

On incomes over £1500 the rate is 8d. in the pound.

In the case of incomes from property the rates are as follows:<sup>11</sup>

Incomes from £100 to £120 pay £1.

Incomes from £120 to £300 pay 1 s. in the pound over £100.

Incomes over £300 pay 1 s. in the pound without exemptions.

In South Australia the income tax was originally introduced in 1884, and is now in force as follows. Incomes from personal exertion pay 4½ d. in the pound up

<sup>10</sup> *Victorian Year Book, 1905*, by E. T. Drake, Government Statistician, pp. 130, 131.

<sup>11</sup> Coghlan, *op cit.*, p. 677.

to £800, and 7d. in the pound on the excess. On incomes from property the rates are 9 d. in the pound up to £800, and 13½d. in the pound on the excess. There is an exemption of £150 in all cases as long as the income is below £400. Beyond that point there is no exemption. Furthermore, there is no exemption at all for absentees who are defined as those who have been absent one year.<sup>12</sup>

In Tasmania the arrangement is somewhat different. The ordinary rates are 6d. in the pound on incomes from business, and 1 s. in the pound on incomes from property. There is, however, an exemption of £100, and there are, moreover, various deductions, arranged as follows:

From £100-110 the deduction is £80			
110-120	"	"	70
120-150	"	"	60
150-200	"	"	50
200-250	"	"	40
250-300	"	"	30
300-350	"	"	20
350-400	"	"	10

In 1904 an important change was made, whereby the income tax proper was limited to income from property, and to corporate income, while all unearned incomes were henceforth subjected to the "tax on ability."<sup>13</sup> This tax on ability, or non-inquisitorial income tax, as it is also called, seeks to ascertain the tax-payer's income by a reference to the rental of the house he occupies. The tax-payer's income is determined according to the following schedule:

When the assessed annual value of the house is under £30 the taxable amount is five times that sum.

When the assessed annual value is from £30 to 40 the taxable amount is six times that sum.

<sup>12</sup> Coghlan, *op. cit.*, p. 678.

<sup>13</sup> An act to levy a tax upon persons in proportion to their means or ability. 4 Edw. VII, no. 17 (1904).

When the assessed annual value is from £40 to 60 the taxable amount is seven times that sum.

When the assessed annual value is from £60 to 80 the taxable amount is eight times that sum.

When the assessed annual value is from £80 to 100 the taxable amount is nine times that sum, and when it is £100 or over, the taxable amount is ten times that sum.

When the taxable amount aggregates £60 and over, an exemption of £30 is permitted, and there is a further reduction of £10 for each child under the age of seventeen when the taxable amount is under £100. Furthermore, there is an additional exemption as follows:

When the taxable amount is under £60 the amount of tax is 2s. 6d.

"	"	"	"	60-100	"	"	"	1d. in £
---	---	---	---	--------	---	---	---	----------

"	"	"	"	100-115	"	"	"	2d. "
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"	"	"	"	115-150	"	"	"	3d. "
---	---	---	---	---------	---	---	---	-------

"	"	"	"	150-400	"	"	"	4d. "
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" " " " 400 and over, the amount of tax is 4d. in the pound for the first £400 and 6d. on the excess.

There are slightly lower rates for occupiers of property partly occupied for business and for property occupied for agricultural purposes. There are also slightly different rates for lodgers.<sup>14</sup> The Tasmanian ability tax is thus really a progressive rentals tax, like that found in France, but very much more elaborate in character.

Finally, in New Zealand, the income tax law which has been in force since 1891, applies only a slightly progressive scale. The rate is 6d. in the pound on the first taxable £1,000, and 1 s. on each additional £1,000. £300 are exempt except in the case of absentees.

<sup>14</sup> For details see Coghlan, *op cit.*, pp. 681, 683, and especially the full account of the system in the White Book entitled *Further Return on Graduated Income Tax (Colonies)*, 1905, Colonial Office, no. 282. This entire supplementary report of 71 pages is devoted to Tasmania.

## § 15. *The United States.*

In the United States the progressive principle has been applied to no less than six classes of imposts, namely, the house tax, the income tax, the business tax, the corporation tax, the inheritance tax and the land tax.

The progressive tax on dwelling houses, which was levied by the Federal government at the end of the eighteenth century, has been described above,<sup>1</sup> and needs no further mention here. The next important illustration of the progressive principle is to be found in the income tax during the Civil War.<sup>2</sup>

### (a) *The Income Tax.*

The income tax, although discussed during the war of 1812, was first introduced into our national financial system during the opening years of the Civil War. The original act of 1861 provided for a proportional tax on the excess on all incomes over \$800. This law, however, for several reasons not necessary to explain here, was never put in force. The first law actually executed, that of July 1, 1862, provided for a general tax on so much of all incomes as exceeded \$600. From \$600 to \$10,000 the rate was three per cent; above that five per cent.<sup>3</sup> The minor variations for different sources of income do not interest us in this place. The commissioner of internal revenue, in his first report, advocated a further graduation of the tax, making the full rate begin only with incomes of \$20,000. He proposed a four per cent tax for incomes

<sup>1</sup> Page 29.

<sup>2</sup> It is to be regretted that the account of the income tax, in Lalor's *Cyclopædia of Political Science*, ii, p. 480, should be so inaccurate.

<sup>3</sup> Act of July 1, 1862, §§ 89-93.



from \$5,000-10,000, a five per cent tax from \$10,000-20,000, and a five and a half or six per cent tax above \$20,000.<sup>4</sup> The plan, although with somewhat different figures, was adopted in the new law of 1864. Incomes were now divided into three classes. On incomes below \$5,000 the rate was five per cent on the excess above \$600; incomes from \$5,000-10,000 paid seven and a half per cent; incomes above \$10,000 paid ten per cent.<sup>5</sup> The special additional income tax of 1864 was, however, proportional, not progressive.<sup>6</sup>

Secretary Fessenden, in his report for 1864, defended the progressive income tax in the following words: "The adoption of a scale augmenting the rate of taxation upon incomes as they rise in amount, although unequal in one sense, cannot be considered oppressive or unjust, inasmuch as the ability to pay increases in much more than arithmetical proportion as the amount of income exceeds the limit of reasonable necessity."<sup>7</sup> Congress was evidently of his opinion, for it continued the principle, although in 1865 one of the classes was omitted. By this law all incomes below \$5,000 paid five per cent on the excess over \$600; while all incomes over \$5,000 now paid ten per cent.<sup>8</sup> After the Civil War was over, and the need of large revenues diminished, the rate of the tax was reduced and made uniform,<sup>9</sup> and the limit of exemption was gradually increased until the tax itself came to an end in 1872. The interesting history of the tax, as

<sup>4</sup> *Report of the Commissioner of Internal Revenue for the Year ending June 30, 1863*, p. 11.

<sup>5</sup> Act of June 30, 1864, §§ 116-123.

<sup>6</sup> Joint Resolution no. 77, July 4, 1864.

<sup>7</sup> *Report of the Secretary of the Treasury, 1864*, p. 15.

<sup>8</sup> Law of March 3, 1865, Thirty-eighth Congress, Second Session, chap. 78.

<sup>9</sup> Law of March 2, 1867, Thirty-ninth Congress, Second Session, chap. 169.

well as a comparison with other taxes and a criticism of the results, must be reserved for another place, as the mere fact of graduation was, in itself, not of great importance as compared with some of the other features of the tax.

The principle of progression was also applied to the income taxes of the Confederacy during the Civil War. By the law of April 24th, 1863, all salaries, except those of naval and military officers, were taxed one per cent if not exceeding \$1,500, but two per cent on any excess.<sup>10</sup> All other incomes, from property, labor, etc., were taxed according to a much more severe scale. Incomes below \$500 were exempt; from \$500 to \$1,500 the rate was five per cent; on all incomes over \$1,500 and less than \$3,000, five per cent was levied on the first \$1,500 and ten per cent on the remainder; incomes between \$3,000 and \$5,000 paid ten per cent; incomes between \$5,000 and \$10,000 paid twelve and a half per cent; incomes of \$10,000 and over paid fifteen per cent.<sup>11</sup> Special provision was made for joint stock companies and corporations. A general tax of ten per cent was levied on their profits. But when they made a profit of between ten and twenty per cent on their capital stock paid in, they were taxed twelve and a half per cent on the profits; in case the profits exceeded twenty per cent the tax was as high as sixteen and two-thirds per cent. The amendatory act of February 17, 1864, exempted salaries of \$1,000, but made no changes in the rates.

Graduated income taxes have not been confined to the national government. They are also found in the separate commonwealths, especially in the South.

<sup>10</sup> In Matthews, *The Statutes at Large of the Confederate States of America*, p. 120; Statute iii, chap. 38, sec. 7.

<sup>11</sup> *Ibid.*, sec. 8, vi. Cf. J. C. Schwab, *The Confederate States of America, 1861-1865*, 1901, p. 300.

In Virginia the income tax has existed since 1843. It was at first a tax on salaries and professional incomes, and a partial tax on funded incomes. It afterwards became a more general income tax. In 1852 the tax was made degressive, but the graduated scale was applied only to personal incomes. On incomes derived from salaries and official fees, the rates were as follows: one-fourth of one per cent when the annual income exceeded \$100, and such excess was not more than \$250; one-half of one per cent when such excess varied from \$250 to \$500; three-fourths of one per cent when such excess varied from \$500 to \$1,000, and one per cent when such excess was more than \$1,000.<sup>12</sup> Professional incomes of physicians, surgeons and dentists were taxed as follows: If the annual income exceeded \$400 and the excess was less than \$600, the tax was one-half of one per cent on such excess in addition to a \$5 license tax; if the excess varied from \$600 to \$1,000 the rate was three-fourths of one per cent; if the excess exceeded \$1,000 the rate was one per cent.<sup>13</sup> In 1856 the progressive tax on incomes from salaries or fees was doubled; but the progressive rate previously applied to professional incomes was converted into a proportional rate.<sup>14</sup> In 1861 the progressive rate on incomes from salaries or fees was abandoned and the graduated scale was thus dropped from the entire tax.<sup>15</sup>

During the Civil War several other Southern states imposed an income tax, two of them with a progressive scale. This was the case in North Carolina, described below, and in Georgia.

The most remarkable example is that of Georgia. The

<sup>12</sup> *Va. Laws of 1852*, chap. 17, sec. 2.

<sup>13</sup> *Va. Laws of 1852*, chap. 17, sec. 13.

<sup>14</sup> *Va. Laws of 1855-6*, chap. 9, sec. 28.

<sup>15</sup> Cf. in general, D. O. Kinsman, *The Income Tax in the American Commonwealths*, 1903, pp. 40-45.

law of 1863 made the tax proportional to the percentage of profits on the capital invested.<sup>16</sup> If the income was twenty per cent of the capital, the tax was one-half of one per cent. If the income was twenty to thirty per cent of the capital, the tax was one and one-half per cent; and for every increase of ten per cent in the percentage of profits to capital, the rate increased one-half of one per cent *ad infinitum*. The result was that when the profits equalled the capital invested, the rate would be five per cent, and if the profits were ten times the capital, the entire profits would go as taxes. It actually happened that with the depreciation of paper money several people made nominal profits on a small capital at these higher rates, and were thus assessed at practically all of their profits.<sup>17</sup> In 1863 the law was changed, making the tax rate proportional to the amount, instead of to the percentage, of the income. On all incomes over eight per cent of capital the rates were as follows:<sup>18</sup>

Income.	Rate (%)	Income.	Rate (%)
\$1,000–10,000.....	5	\$30,000–50,000.....	15
10,000–15,000.....	7½	50,000–75,000.....	17½
15,000–20,000.....	10	75,000–100,000.....	20
20,000–30,000.....	12½	Over 100,000.....	25

The income tax law, after minor changes, which, however, did not affect the principle of progression, was repealed at the close of the war in 1866, having led to much trouble and dissatisfaction.

<sup>16</sup> Georgia *Laws of 1863*, Extra Session, title xviii, sec. 156. Kinsman, *op. cit.*, pp. 93-96.

<sup>17</sup> A brewer, for instance, invested \$50 and made \$1500, or 3000% on his investment. He was informed that his tax amounted to \$2225. On remonstrating that this was more than the entire amount of property which he possessed, the tax collector is reported to have said: "Very well, give me all you have and I will take a note for the rest." *Southern Watchman*, June 17, 1863.

<sup>18</sup> Ga., *Laws of 1863-4*; Regular Session, no. 75, sec. 2.

In one of the border states also we find an example of a progressive income tax during the Civil War. In 1863 West Virginia adopted the old law of Virginia, which had, as we know, in the meantime been changed. According to this law a progressive rate was imposed on incomes from any office or employment, except ministers of the gospel, with rates as follows:<sup>19</sup>

$\frac{3}{4}$ of 1%	if the income was between \$250 and \$500
1%	" " " " \$500 " \$1,000
$1\frac{1}{2}\%$	" " " over \$1,000

This attempt, however, to tax incomes was so unsuccessful that it was not repeated.<sup>20</sup>

We still have several instances of graduated income taxes in the United States. These are found in North Carolina, South Carolina and Oklahoma.

In North Carolina the income tax dates from 1849. It was at first a tax on commercial and precarious incomes, but was gradually changed until it became a tax on incomes from property not already taxed. The tax was ordinarily proportional, with the exception of a few years during the Civil War. Thus, in 1864, the profits made by the exchange, or in the manufacture, of cloth and woolen goods, leather and leather goods, iron and tobacco, and the profits made in the manufacture of salt were taxed five per cent if the profits did not exceed \$10,000. From \$10,000 to \$20,000, however, the rate of the tax was twelve per cent. From \$20,000 to \$30,000 the rate was fifteen per cent.<sup>21</sup>

In 1866, however, all incomes (except those from sal-

<sup>19</sup> W. Va., *Laws of 1862-3*, chap. 64, sec. 8.

<sup>20</sup> Kinsman, *op. cit.*, p. 97.

<sup>21</sup> N. C., *Laws of 1864*, chap. 27.

aries and fees) were taxed according to a progressive scale as follows:<sup>22</sup>

From \$500-1000.....	1%
2000-3000.....	2
3000-4000.....	2½
4000-5000.....	3
5000 and over.....	3½

In 1867 the progression was materially reduced, the rates now being one-half of one per cent on incomes between \$500 and \$3,000, and one per cent on incomes over \$3,000.<sup>23</sup> In 1868 the new constitution prohibited the taxation of income derived from property already taxed, and in 1869 the income tax was again made proportional.<sup>24</sup>

It was not until 1893 that the principle of progression was reintroduced. According to the law of 1893 the rate was five per cent on all profits and incomes derived from property not taxed; incomes from salaries and fees paid one-half of one per cent on the excess over \$1,000; all other incomes paid the following rates:<sup>25</sup>

Excess over \$1,000 to \$5,000,—½ of 1 per cent.
"      5,000 to 10,000,—¼ "    I    "
"      10,000 to 20,000,—½ "    I    "
"      20,000                        I    "

The arrangement, it will be remembered, is the same as in some of the Swiss cantons, like Basel and Schaffhausen. In 1895 the rates were slightly raised, as follows:<sup>26</sup>

Incomes in excess of \$1,000 to \$5,000 paid ¼ of 1%
"      "      "      5,000 to 10,000 "  ½ "  1%
"      "      "      10,000 to 20,000 "  1%
"      "      "      20,000                        2%

<sup>22</sup> N. C., *Laws of 1866*, chap. 21, schedule A., sec. 8.

<sup>23</sup> N. C., *Laws of 1866-7*, chap. 72, schedule A.

<sup>24</sup> N. C., *Laws of 1868-9*, chap. 108. Cf. also Kinsman, *op. cit.*, p. 69.

<sup>25</sup> *North Carolina Revenue Act, 1893*, schedule A., sec. 5.

<sup>26</sup> N. C., *Laws of 1895*, chap. 116, schedule A., sec. 5.

These rates are still in force. The law, however, has been a complete failure, as a revenue measure. During the year ending 1902, the revenue from the income tax was precisely \$18.<sup>27</sup>

The other existing example of a progressive income tax is in South Carolina. In that state, after the national income tax had been declared unconstitutional, a progressive income tax was introduced in 1897, with the following rates:<sup>28</sup>

Incomes from \$2,500 to \$5,000 paid .....	1%
5,000 to 7,500 " .....	1½%
7,500 to 15,000 " .....	2%
15,000 and over " .....	3%

This also has until recently been a complete failure, the revenue in 1902 amounting to only \$414 for the entire state. Beginning in 1905, however, a more energetic attempt has been made to enforce the law, with the result that the revenue has slowly increased. In 1907 it amounted to over \$36,000, which is still a pitiful figure when compared with the yield of the property tax. The progressive income taxes now in force in the United States may thus be said to be in reality only paper taxes. Whether the same will be true of the latest attempt to levy a progressive income tax remains to be seen. This attempt is being made in the new state of Oklahoma.

In May, 1908, a so-called professional income tax was imposed in Oklahoma. The tax is levied on all incomes from salaries, fees, professions, and property upon which a gross receipts or excise tax<sup>29</sup> has not been paid, in excess

<sup>27</sup> Cf. Seligman, "The Income Tax in the American Colonies and States," *Political Science Quarterly*, x (1895), p. 241.

<sup>28</sup> South Carolina, *Laws of 1897*, no. 335.

<sup>29</sup> The gross receipt tax referred to means the so-called "gross revenue tax" of 1908, which imposes a tax on the gross receipts of all public service corporations, of all mining corporations and of petroleum and natural gas companies. The rates vary in the case of

of \$3,500. The rates are as follows:

5	mills	( $\frac{1}{2}$ of 1%)	on the excess over	\$3,500	up to	\$5,000
$7\frac{1}{2}$	"	( $\frac{3}{4}$ of 1%)	"	"	5,000	" 10,000
12	"	( 1.2% )	"	"	10,000	" 20,000
15	"	( 1.5% )	"	"	20,000	" 50,000
20	"	( 2% )	"	"	50,000	" 100,000
$33\frac{1}{3}$	"	( 3 $\frac{1}{3}$ % )	on all amounts over	\$100,000.		

Every tax payer is required to sign a certificate of his income. The assessor in the township is to send to the State auditor lists of income recipients who have not filled out the blanks. The auditor then may take such steps as he deems necessary to require any such person to make proper return of his income, and he may also summon witnesses. The result of the Oklahoma experiment will be watched with interest.

Outside of these few cases of a graduated income tax, the only examples of progressive taxation in the American commonwealths were until recently found in connection with the business taxes in the Southern states and with the corporation taxes, to which we shall now turn our attention.

#### (b) *Business and Corporation Taxes.*

In many of the Southern states and commonwealths the license or business or excise or occupation taxes, as they are variously called, are arranged by classes, each class of tax-payers paying a fixed sum, graduated according to sales or purchases or receipts or capacity or capital stock or number of years in operation or size of town. Examples of these are the Texas occupation tax on mer-

public service corporations from one-quarter of one per cent on the gross receipts of water works companies to three per cent on the gross receipts of express and car companies. In the case of mining companies the tax is two per cent on coal and one-half of one per cent on lead, zinc, jack, gold, silver and copper. The latter rate also applies to asphalt, petroleum, mineral oil and natural gas companies. *Oklahoma Session Laws of 1907-1908*, p. 640.

chants, which varies from \$3 on purchases of less than \$2,000 to \$300 on purchases over \$750,000; the Tennessee tax on cotton seed oil mills, which varies from \$15 to \$350, according as the press uses from 1,000 to 100,000 tons; and the Virginia tax on distillers of liquors, which varies from a rate of \$30 for a daily capacity of 10 bushels of mash to \$500 for a capacity of 300 bushels, with an additional tax of \$200 for every successive 100 bushels. This system is, however, akin to the graduated scales in the French *impôt des patentés* mentioned above<sup>80</sup> and is of slight importance.

The graduated corporation taxes, however, deserve a somewhat fuller mention. They are found in various states. In Maine the "excise tax" on railroad companies, originally enacted in 1881, varied from one-fourth of one per cent to three and a quarter per cent of the gross earnings, the lowest rate being applied when the earnings did not exceed \$2,250 per mile, and the rate increasing one-fourth of one per cent for every \$750 earnings per mile until the minimum rate was reached.<sup>81</sup> In 1893 the point at which the minimum rate was applied was limited to \$1,500 per mile, and the tax was now made applicable to telegraph and telephone companies.<sup>82</sup> In 1901 the rates were again altered so as to be one-half of one per cent when gross earnings are under \$1,000; three-fourths of one per cent when gross earnings are between \$1,500 and \$2,000; and one-fourth of one per cent additional for each \$500 of gross receipts, until the rate reaches four per cent. In Maryland, where railroads have been for many years taxed on their gross receipts, the law of 1896 graduated the tax at the rate of eight-tenths of one per cent on the first \$1,000 gross receipts

<sup>80</sup> P. 89.

<sup>81</sup> Maine, *Revised Statutes*, title I, sec. 42.

<sup>82</sup> Maine, *Acts of 1893*, ch. 166.

per mile, one and one-half per cent when the receipts vary from \$1,000 to \$2,000 per mile, and two per cent on all earnings over \$2,000 per mile.<sup>33</sup> In Virginia the tax on telephone companies is graduated from 50c to \$1.50 per telephone, according to the number of telephones. In Tennessee the tax on electric light companies is \$20 for a capacity of under 2,500 lights, rising to \$500 for a capacity of over 10,000 lights. These rates apply, however, only in cities from 50,000 to 100,000 population. In the smaller towns the figures vary slightly.

In the case of three commonwealths, the former graduated system of gross earnings taxation applicable to transportation companies has recently been abandoned. Thus, in Wisconsin, the so-called "license fees" on railroads were, under the law of 1889, five dollars per mile on earnings under \$1,500 per mile; the same plus two per cent on the excess over \$1,500, when earnings varied from \$1,500 to \$3,000; and four per cent when earnings exceeded \$3,000 per mile.<sup>34</sup> In 1897 the rates were somewhat increased, but in 1903 the whole system was abolished. A graduated license fee, however, still exists for telephone companies, and for electric light and power companies. In the latter cases, when the gross receipts are less than \$800,000, the tax is one and one-half per cent on the first \$250,000 and two per cent on the rest; when the gross receipts are over \$800,000 the rates are increased to three and one-half and four per cent respectively. In Michigan the "specific tax" on railroads ranged from two to two and a half, three, three and a half, and four per cent, according as the earnings were less than \$2,000 a mile, \$2,000 to \$4,000, \$4,000 to \$6,000, \$6,000 to \$8,000, or over \$8,000, a mile.<sup>35</sup> In 1897 the rates were increased

<sup>33</sup> Maryland, *Act of March 27, 1896.*

<sup>34</sup> Wisconsin, *Annotated Statutes, 1889*, § 1213.

<sup>35</sup> Michigan, *Laws of 1893*, no. 129.

so as to range from two and one-half to five per cent. In 1900, however, the entire system of taxation of gross receipts was abandoned. Finally, in Vermont, according to the law of 1882, the rate of tax on railroad companies was two per cent for the first \$2,000 earnings per mile, three per cent for the first additional \$1,000; four per cent for the next additional \$1,000; five per cent for everything over \$4,000 earnings per mile. In 1890, however, the tax was made proportional.<sup>86</sup>

(c) *Inheritance Taxes.*

The next example of progressive taxation in the United States is to be found in the graduated inheritance taxes. The last few years have seen a decided impetus to the movement in favor of a graduated scale in this class of taxes.

In 1898, during the Spanish War, the Federal government imposed a tax on legacies and distributive shares on personal property over \$10,000. The minimum rates varied from three-fourths of one per cent to five per cent, being graduated according to relationship; but the rates were increased one-half for sums between \$25,000 and \$100,000; doubled for sums between \$100,000 and \$500,000; multiplied by two and one-half for sums between \$500,000 and \$1,000,000; and multiplied by three for sums over \$1,000,000. The maximum rate was thus fifteen per cent on the highest amounts. The Supreme Court of the United States decided, however, that the rates were applicable only to the individual shares received by the legatees and not to the entire amounts left by the testator. This inheritance tax was repealed in 1902, when the need of a war revenue had disappeared.

Progressive inheritance taxes are now, however, found

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<sup>86</sup> Vt., *Laws of 1890*, chap. 3, p. 5.

in several of the separate commonwealths. The movement began in Ohio, where a law was passed in 1894, applying the progressive principle to the tax on direct inheritances over \$20,000. The rates varied from one per cent on inheritances from \$20,000 to \$50,000, up to five per cent on inheritances over \$1,000,000. This tax was, however, declared unconstitutional in 1895, and has since then not been replaced.<sup>87</sup>

Illinois followed in 1895 with a progressive tax in which the graduation applied, however, only to distant relatives or strangers. This tax was upheld as constitutional by the state courts and finally also in 1898 by the Supreme Court of the United States.

From this time on, therefore, the progressive movement spread with increasing celerity. In 1901 the progressive principle was adopted in four states, Nebraska, Colorado, Washington and North Carolina. In the first three states the progressive scale does not apply to direct relatives, and in North Carolina, where it originally applied also to direct relatives, an amendment in 1903 made the graduation applicable only to distant relatives. In 1903 the principle of progression spread to Wisconsin and Oregon, the graduated scale applying in Wisconsin to all relatives, and in Oregon to the more distant ones. In 1905 California, Minnesota and South Dakota accepted the progressive principle, the first two applying the graduated scale to all relatives. In 1907, Idaho, Massachusetts and Texas fell into line and adopted the principle of progression, the first two again applying the graduated scale to all relatives. The special Tax Commission of New York in 1907 recommended its adoption in New York, with rates higher than those that exist anywhere else in important countries, and the new constitution of Oklahoma ex-

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<sup>87</sup> West, *The Inheritance Tax*, 2nd ed., 1908, pp. 135-6.

pressly authorizes progressive inheritance taxes, an authorization which has been utilized in the recent law of 1908.

This law is the most radical yet enacted in any part of the world, and hence deserves a fuller consideration.

The Oklahoma inheritance tax is arranged in five classes, according to the grade of relationship, the first class being that of husband, wife, children or parents. In this class, on the first \$5,000 above an exemption of \$1,000 in the case of a widow, or of \$5,000 in other cases, the rate is one per cent; in classes two and three the first \$2,000 in excess of the exemption of \$500 and \$250, respectively, pay one and one-half and three per cent respectively; in classes four and five, the first \$500 above the exemption of \$150 and \$100 respectively pay four and five per cent respectively. On the excess above these figures in class one the primary rate is to be increased one one-hundred-and-twenty-fifth of one per cent (0.125%) for every \$100 increase; in classes two and three the primary rate is to be increased one-fiftieth of one per cent (0.050%) for every \$100 increase; and in classes four and five the primary rate is to be increased one-tenth of one per cent (0.1%) for every \$100 increase.

If this enactment is to be interpreted according to the letter of the law,<sup>88</sup> it means that in class five (distant relatives or strangers) the rates would be as follows:

1/10 of 1% for each	\$100 excess
1% " "	1,000 "
10% " "	10,000 "
100% " "	100,000 "

In other words, when the excess over the original \$500 reaches \$100,000 the entire excess will be confiscated. On the other hand, if the wording of the act is to be so

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<sup>88</sup> Oklahoma, *Session Laws of 1907-1908*, 1908, pp. 733 *et seq.*

interpreted that the 100 per cent increase means 100 per cent of the primary rate of five per cent, or double that primary rate, then we should reach the rate of

10% at an excess of \$100,000
15% " " " 200,000
20% " " " 300,000
and so on until we reach
100% at an excess of \$1,400,000

According to the one interpretation we should reach an entire confiscation at the low figure of \$100,000; according to the other interpretation at the somewhat higher figure of \$1,400,000. But in both cases it will be a confiscation of the excess of the whole inheritance above the sums mentioned. In the other classes the points at which complete confiscation is reached are considerably higher.

Of the thirty American states which now tax inheritances, fourteen, as we have seen, apply the progressive principle. In six states, California, Idaho, Massachusetts, Minnesota, Wisconsin and Oklahoma, the progression applies to all classes of heirs and successors. In six states, Colorado, Illinois, Nebraska, North Carolina, Oregon and South Dakota, it applies only to distant relatives and strangers. In two states, Texas and Washington, it applies to all collateral heirs. For direct heirs the rate rises to two per cent in Massachusetts (at \$100,000); to three per cent in California, Idaho and Wisconsin (at \$500,000); to five per cent in Minnesota (at \$100,000), and to an indefinite rate in Oklahoma. For collateral heirs the rates rise to nine per cent in Massachusetts and Minnesota (at \$100,000); to six per cent in Colorado, Illinois, Nebraska and Oregon (at \$50,000); to ten per cent in South Dakota (at \$50,000); to twelve per cent in Texas (at \$500,000), and Washington (at \$100,000); to fifteen per cent in California, Idaho and Wisconsin (at \$500,-

000) and in North Carolina (at \$50,000); and to one hundred per cent in Oklahoma.

The exemptions range from \$2,000 in Wisconsin to \$20,000 in Illinois, and the maximum rates are, as indicated above, applicable to sums over \$50,000 in Colorado, Illinois, Nebraska, Oregon, North Carolina and South Dakota; to sums over \$100,000 in Massachusetts, Minnesota and Washington, and to sums over \$500,000 in California, Idaho, Texas and Wisconsin. During the year that the Federal inheritance tax was in force the combined inheritance tax in North Carolina, for instance, reached the enormous sum of thirty per cent on the maximum amounts of personal property.

The striking point about the progressive inheritance tax in the United States is that the constitutionality of the progressive principle has now been definitively confirmed by the Supreme Court. In the Illinois cases it was claimed that progressive taxation was in violation of the rule of equality required by the Fourteenth Amendment. The Court, however, denied this, stating that the rule does not require exact equality of taxation. It only requires that the law imposing the tax shall operate on all alike under the same circumstances. The tax is not on money, but on the right to inherit, and hence a condition of inheritance; and it may be graded according to the value of that inheritance. The condition is not arbitrary, because the amount of the tax is determined by that value; the tax is not unequal in operation because it does not levy the same percentage on every dollar; it does not fail to treat all alike under like circumstances and conditions both in the privilege conferred and in the liabilities imposed.<sup>38</sup> What distinction, if any, will be drawn in the case of the confiscatory Oklahoma tax, remains to be seen.

<sup>38</sup> *Magoun vs. Illinois Trust and Savings Bank*, 170 U. S., 283.

The progressive principle was also upheld in the Federal inheritance tax. It was claimed that progressive taxation was repugnant to that clause in the Constitution which declares that all indirect taxes should be levied uniformly throughout the United States. The Supreme Court held that the inheritance tax was an indirect tax, in the sense of the Constitution, and that the uniformity required by the Constitution really meant only geographical uniformity.<sup>40</sup> Thus the progressive principle has been definitely established in the United States.

(d) *Land Taxes.*

Finally, it is worthy of especial note that a novel application of the progressive principle is to be found in the recent legislation of Oklahoma. In this state a unique attempt is being made to restrict large estates in land by the imposition of a progressive land tax. The official title of the tax, which was enacted in May, 1908, is, "The graduated tax on land holdings in excess of 640 acres of average taxable lands and on incomes, rents and profits of lands held by lease or rental contract in excess of 640 acres."<sup>41</sup> The tax is supplementary to the ordinary real estate tax, but is levied only on land exclusive of improvements thereon. The rates, in addition to the ordinary real estate tax, are as follows:

In the case of—

\$640- 1,280	average taxable value,	$\frac{1}{4}$	of 1% on such excess.
1,280- 3,000	" "	"	1% on such excess.
3,000- 5,000	" "	"	2%
5,000-10,000	" "	"	5%
10,000-25,000	" "	"	10%

The "average taxable value" is declared to be \$20 per acre. Three hundred and twenty acres of land, how-

<sup>40</sup> *Knowlton vs. Moore*, 178 U. S., 41.

<sup>41</sup> *Oklahoma, Session Laws of 1907-1908*, 1908, p. 725.

ever, are in all cases exempt from this tax. The tax, hence, does not apply to urban property.

Similar rates, levied on the lease holder, are imposed in the case of incomes, rents and profits from land. In such cases, however, the tax is assessed according to acreage, irrespective of value. The law is to go into effect in July, 1909, and its operation will be awaited with the greatest interest. It is the first attempt to apply in the United States a system somewhat similar to that found in New Zealand.

### **§ 16. *Canada and other British Colonies.***

In Canada progressive taxation has been applied primarily to the inheritance taxes. The progressive scale was first introduced in two provinces in 1892. In Ontario the rates for certain direct relatives were two and one-half per cent, when the estate was between \$100,000 and \$200,000, and five per cent when it exceeded \$200,000. In Nova Scotia the two and one-half per cent rate applied only to the excess above \$25,000 and the five per cent rate to the excess above \$100,000. For other relatives and strangers the tax in both provinces was proportional, or rather it was graduated according to relationship, not according to the amount of the estate, being five per cent for certain relatives and ten per cent for distant relatives and strangers.

Prince Edward's Island followed in 1894 with rates on near relatives of one and one-half per cent on estates below \$50,000, and of two and one-half per cent on sums above that amount. British Columbia in the same year adopted a succession duty with rates varying from one to five per cent according to the amount, but with half rates for direct heirs.

More recently the rates have been increased, except in Prince Edward's Island and Nova Scotia, and have spread to other provinces. In New Brunswick the rates on direct relatives now vary from one and one-quarter to five per cent, according to the amount, while distant relatives pay ten per cent, and in cases where the property goes to any person outside of the province, the rates are doubled. In Manitoba the rates for all classes of heirs vary from one per cent to ten per cent on estates over \$500,000. In Ontario, since 1907, the rates for near relatives vary

from one to five per cent on estates over \$200,000; but additional rates are levied on estates over \$100,000, the rates varying from one per cent up to three per cent on sums over \$800,000. Thus the maximum rate for direct heirs is eight per cent. In the case of more distant relatives the rate varies from five to ten per cent on sums over \$450,000.

In Quebec there is now also an inheritance tax with the highest rates now in force in Canada. In the case of direct heirs, the rates are the same as those in Ontario, but in the case of collateral heirs the rates rise to fifteen per cent on the largest amounts. The following table will show the character of the rates:<sup>1</sup>

	Collateral Heirs. Rate %	Exemption.	Direct Heirs. Rate %	Exemption.
British Columbia .....	5 -10	\$5,000	1½- 5	\$25,000
Manitoba .....	1 -10	4,000	2 -10	25,000
New Brunswick .....	5 -10	5,000	1½- 5	50,000
Nova Scotia .....	5 -10	5,000	2½- 5	25,000
Ontario .....	5 -10	10,000	1 - 8	50,000
Prince Edward Island..	2½- 7½	23,000	1½- 2½	10,000
Quebec .....	5 -15	.....	1 - 8	5,000

We also find a few examples of the progressive scale in some of the other English colonies. Thus, in the Cape of Good Hope, a progressive income tax was imposed by the act of 1904. All incomes over £1,000 pay 6d. in the pound on so much of the income as is between £1,000 and £2,000; 9d. in the pound on so much as is between £2,000 and £5,000; and in addition, 1 s. in the pound on so much of the income as exceeds £5,000.<sup>2</sup>

In the Leeward Islands, incomes from £50 to £100 are taxed two and one-half per cent, and incomes over £100

<sup>1</sup> Report of the Special Tax Commission of the State of New York (1907), p. 131. Cf. also in general West, *The Inheritance Tax*, 2nd ed., 1908, pp. 76-85.

<sup>2</sup> Cf. *Return on Graduated Income Taxes in the Colonies*. Colonial Office, 1905, no. 196, pp. 21-22.

pay three and one-half per cent; £50 being exempt in each case.

In St. Vincent the income tax law in 1904 imposed the following rates:

Incomes of £50.....	exempt
From £50 to 100.....	20 s. per £100
100 to 200.....	30 s. " 100
200 to 300.....	40 s. " 100
Over 300.....	60 s. " 100

### § 17. *Other Countries.*

In addition to the countries discussed above, we find the application of the progressive rate also in Spain, in Mexico and in Japan.

In Spain, the progression is applied to only a very small extent. The law of 1900 introduced a slight graduation in that part of the tax on personal incomes which is imposed on the salaries of state officials. The rate varies from fifteen to twenty per cent, according to the amount of the salaries of active government officials, with somewhat different rates for other classes of salaries.<sup>1</sup>

In Mexico there is a very slightly progressive inheritance tax since 1901. The rates of the Federal inheritance tax are arranged in two classes, with the dividing line at 10,000 pesos. The rates for descendants, husband and wife vary from one-half of one per cent to one per cent; for ascendants, from one to two per cent; and for relatives from the second to the fourth degree, from three to four per cent. In the case of more distant relatives, the tax remains proportional.<sup>2</sup>

In Japan the progressive principle has recently been applied to both the income tax and the inheritance tax. The income tax was created in 1887, but the progressive rates were introduced somewhat later. In 1908 the normal rates were as follows: on corporations, two and one-half per cent; on interest from bonds, public and private, two per cent; on all other incomes, arranged according to the following twelve classes:

<sup>1</sup> Cf. *Reports from His Majesty's Representatives Abroad respecting Graduated Income Taxes in Foreign States, 1905*, pp. 132-133.

<sup>2</sup> For details, see West, *op. cit.*, p. 58.

Incomes.	Rate
100 to 300 yen .....	.1%
500 " .....	.1.2
1,000 " .....	.1.5
2,000 " .....	.1.7
3,000 " .....	.2.
5,000 " .....	.2.5
10,000 " .....	.3.
15,000 " .....	.3.5
20,000 " .....	.4.
30,000 " .....	.4.5
50,000 " .....	.5.
100,000 " .....	.5.5

During the war and since that time the rates have been increased so that the addition amounts to from ten per cent to twenty-seven per cent, of the normal rate in the various classes.<sup>3</sup>

The Japanese inheritance tax, which was introduced in 1905, also has progressive rates that have been arranged in such wise that the rate begins at one and two-tenths per cent and increases gradually until for inheritances between 70,000 and 100,000 yen the rates vary from four to six and one-half per cent. Beyond that point the rate increases one-half of one per cent for each additional 50,000 yen, up to 1,000,000 yen, when the progression ceases.<sup>4</sup>

<sup>3</sup> Cf. the *Eighth Financial and Economic Annual of Japan*, Tokyo, 1908, p. 21.

<sup>4</sup> Cf. the *Seventh Financial and Economic Annual of Japan*, Tokyo, 1907, pp. 19, 21 and 26. The *Eighth Annual* does not contain the details.

### § 18. Conclusion.

From the above review it is evident that the tendency toward progressive taxation is almost everywhere on the increase. Whether we deplore it or not, democracy is asserting itself more vigorously and it is precisely in the most democratic countries like Australia and Switzerland that the movement in favor of progressive taxation is the strongest. The results thus far, as we have seen, have not been of a character to justify the fears of the alarmists. In Switzerland the national prosperity is on the increase, capital is growing and the principle of graduated taxation is no longer deemed debatable. Its enforcement has given general satisfaction. It must be remembered, however, that the chief application of the progressive principle is found in the inheritance taxes, which are levied only once, and that in the case of the annually recurring property and income taxes the graduation has assumed the form of degression rather than progression. Under such conditions the edge is taken off the ordinary objections to the system of graduation. In Australia, Sir Charles Dilke tells us,<sup>1</sup> the institution of private property has not been weakened, nor has capital been driven away. The people are satisfied with the progressive principle and are extending its operation year by year. In Germany and Austria, progression, as a principle, is no longer seriously combated. Even in England a graduated income tax has become one of the planks of the radical platform, and a government

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<sup>1</sup> *Problems of Greater Britain*, part vi, chap. i. This is confirmed in the recent testimony of Mr. Coghlan before the Select Committee mentioned in the next note.

commission has reported in its favor.<sup>2</sup> As the Hon. James Bryce writes in a recent letter: "Progressive inheritance and income taxes are likely to figure largely in time to come in European politics." The same statement may be hazarded of American politics as well. The facts, therefore, seem to be in the direction of progressive taxation. Let us endeavor to ascertain what the verdict of theory is.

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<sup>2</sup> *Report from the Select Committee on the Income Tax.* 1906. no. 365.



PART II  
THE THEORY OF PROGRESSIVE  
TAXATION



## CHAPTER I.

### THE SOCIALISTIC AND COMPENSATORY THEORIES.

There is scarcely any topic of economic inquiry which has aroused the interest of scientists and would-be reformers to a greater degree than the theory of progressive taxation. Yet, with but few exceptions, almost every writer has simply advanced his own views on this topic, without reference to the work of his predecessors or without an adequate discussion of the arguments of his opponents. It will be our purpose in what follows to collect every argument of consequence that may have been advanced on any side of the controversy in order that we may attain a firm basis for our own conclusions. With a view of avoiding undue digressions, the detailed history of each important theory is relegated to the historical appendices.

The arguments that have been urged in favor of progressive taxation may be grouped in three classes which must be carefully distinguished. These may be called respectively the socialistic, the compensatory and the economic theories.

The foremost scientific advocate of what is here termed the socialistic theory of progression is the German economist, Adolf Wagner. Prof. Wagner distinguishes between the purely fiscal period in the history of public finance and the "socio-political" period. The essence of the first period consists in the simple endeavor on the part of the government to raise a revenue adequate to its needs. The essence of the second period consists in the predominance of social reasons over purely fiscal reasons. The state is no longer satisfied merely with raising an adequate rev-

ence, but now considers it a duty to interfere with the rights of private property in order to bring about a more equitable distribution of wealth. The fiscal policy looks merely to the needs of the administration; the "socio-political" policy looks at the relations of social classes to each other, and the best methods of satisfactorily adjusting these relations. The fiscal policy necessarily results in proportional taxation; the "socio-political" policy results in progressive taxation. The ethical demands of modern civilization are everywhere preparing the way for a transition from the old fiscal period to the incipient socio-political period. It is these ethical or social reasons alone which can logically serve as a basis for progressive taxation.

This distinction of Wagner is, however, open to serious criticism. It is not true historically that the tax policy of various nations has been adjusted solely with reference to purely fiscal reasons. All governments have allowed social considerations in the wider sense to influence their revenue policy. The whole system of protective duties has been framed not merely with regard to revenue considerations, but also with the aim of producing results which should directly affect social and national prosperity. Taxes on luxuries have often been mere sumptuary laws designed as much to check consumption as to yield revenue. Excise taxes have frequently been levied from a wide social, as well as from a narrow fiscal, standpoint. From the very beginning of all tax systems these social reasons have often been present. The attempt sharply to distinguish such periods historically, therefore, can scarcely be termed successful.

But, on the other hand, it is not allowable to confound this undoubtedly social element in all fiscal policy with what Wagner calls the socio-political, or what might be

termed not incorrectly the socialistic element. From the principle that the state may modify its strict fiscal policy by considerations of general social utility to the principle that it is the duty of the state to redress inequalities of fortune by taxation, is a long and dangerous step. It would land us not only in socialism, but practically in communism. If this were one of the acknowledged functions of government, it would be useless to construct any science of finance. There would be only one simple principle: confiscate the property of the rich and give it to the poor.

The difference between the social element and Wagner's "socio-political" idea is virtually the difference between social reform and socialism. We may indeed deprecate the existing conditions which affect the distribution of wealth. Where so much is spoken, however, of unjust arrangements, it is desirable to come to an understanding as to what is really meant by the term justice. To give an adequate discussion of this fundamental problem would indeed require a whole volume. It may, however, be permissible to put the conclusions tentatively and aphoristically as follows: Justice, so far as the action of the state is concerned, consists in holding the balance equal; in giving none an undue advantage; in affording each individual equal rights before the law and equal opportunities to develop his own talents and his own resources. Justice indeed demands that the state should do nothing consciously and purposely to increase inequality of wealth; but we clearly transcend the claims of justice when we demand that the state should do away with all inequalities of wealth. Justice, in the sense of equality, may indeed demand changes in the existing forms of taxation. This involves the problem of the equal treatment of all, as against historic inequality and

its survivals in the tax systems of the world at present. In this sense, indeed, there is room and need for social reform; but it is a reform which consists in checking the continuance of old unequal laws, not in fostering the growth of new unequal laws. Legal justice means legal equality; but a legal equality which would attempt to force an inequality of fortune in the face of natural inequalities of ability would be a travesty of justice.

We may indeed grant the crying need for social reform. In so far, however, as the government is concerned, the possibility of reform lies rather in the general attitude of the legislator toward social and industrial matters. Especially in the field of finance, the chief social reforms are to be found in the domain of outlay and expenditure rather than in that of revenue. They consist primarily in extending the benefits of governmental activity to the poor and needy, and in enabling even the lowest classes to participate, as far as possible, in the advantages of a progressive civilization. Even here it is a question how far it is wise to go; and the answer depends not alone on fiscal reasons, but also on broader considerations of general governmental policy. In the field of public revenue, however, we do not deny for a moment that social considerations should play a role. But, as has been pointed out above, this has always been the case, and will always be so. Nor can we overlook the growing realization by the community of the social characteristics of wealth, and of the increasing importance attached to the social origins and the social content of private property.<sup>1</sup> But from this it is a far cry to Professor Wagner's "socio-political" demand that the state introduce progressive taxation in

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<sup>1</sup> See e. g. Seligman, *Principles of Economics*, ch. ix, and in its application to taxation, especially the Report of the New York Tax Commission mentioned at almost the close of this monograph.

order to equalize social conditions. Progressive taxation may indeed incidentally accomplish this result, but if it cannot be defended on distinct and independent grounds, its advocates can with difficulty repel the charge that it is virtually a socialistic doctrine. To erect the "socio-political" demand into a separate and fundamental basis of taxation is a proceeding fraught with perilous possibilities.

It may indeed be conceded that in the face of so cardinal a point as the control of the land, it is perhaps competent for the government to take steps to prevent by fiscal methods a condition of land-holding which may come to be a menace to political tranquility and democratic progress. The attempt of a democracy to levy progressively higher taxes on very large estates is thus not so subject to criticism, even though it is a matter of serious doubt whether the desired end could not be better attained in some other way.<sup>2</sup> But this is largely because of the fact that while progressive taxation may prevent the aggregation of large plots in a few hands, it cannot lessen the amount of land itself; whereas a similar attempt to apply the principle to property in general, might tend to a weakening of the motive to the accumulation of property. Thus Thomas Paine, who was very far from being a socialist, advocated progressive taxation as a defense against primogeniture.<sup>3</sup> In the same way the land tax legislation

<sup>2</sup>This is the opinion of the man best qualified to judge as to the results of the New Zealand legislation. See the reasoning of T. A. Coghlan in *Minutes of Evidence, British Report of Select Committee on the Income Tax, 1906*, qu. 1328.

<sup>3</sup>"Admitting that any annual sum, say for instance, one thousand pounds, is necessary or sufficient for the support of a family, consequently the second thousand is of the nature of a luxury, the third still more so, and by proceeding on we shall at last arrive at a sum that may not improperly be called a prohibitive luxury. It would not be impolitic to set bounds to property acquired by industry, and

of New Zealand and of Oklahoma, which has been described above, ought not properly to be called socialistic. So far, however, as the general "socio-political" theory is concerned we must conclude that the position is untenable to the extent that it implies a conscious effort on the part of the government to levy higher taxes on the rich in order to reduce them to the level of the poor.

This theory, moreover, is not new with Wagner. As far back as the end of the fifteenth century, when the whole Florentine republic was convulsed with the conflict over the progressive tax—*la decima scalata*<sup>4</sup>—the distinguished historian and publicist, Guicciardini, wrote two remarkable treatises in which he discussed the arguments for and against progression. In the first essay he really foreshadows many of the most important of the recent theories on the subject, including what are termed in this work the economic theories; but he nevertheless lays the

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therefore it is right to place the prohibition beyond the probable acquisition to which industry can extend; but there ought to be a limit to property or the accumulation of it, by bequest."

"The following table of progressive taxation is constructed on the above principles, and as a substitute for the commutation-tax. It will reach the point of prohibition by a regular operation, and thereby supersede the Aristocratical law of primogeniture."

"The object is not so much the produce of the tax, as the justice of the measure." "But the chief object of this progressive tax (besides the justice of rendering taxes more equal than they are,) is, as already stated, to extirpate the overgrown influence arising from the unnatural law of primogeniture, and which is one of the principal sources of corruption at elections."

"It would be attended with no good consequences to enquire how such vast estates as thirty, forty, or fifty thousand a year could commence, and that at a time when commerce and manufactures were not in a state to admit of such acquisitions. Let it be sufficient to remedy the evil by putting them in a condition of descending again to the community, by the quiet means of apportioning them among all the heirs and heiresses of these families." Thomas Paine, *Rights of Man*, 1791. Cf. London ed. of 1817, part 2, pp. 99-101.

<sup>4</sup> See above p. 22.

chief stress on the argument that progressive taxation will lessen the disparity of fortunes and prevent the excessive accumulation of wealth. Progressive taxation, in short, must be defended on general considerations of social policy. Guicciardini himself, it is true, sides with the opponents of progression, whose arguments he develops in the second essay; but his first essay remains of great importance to-day as reflecting the arguments of the earliest literary advocates of the principle of progression. It is remarkable that it should have received so little attention outside of Italy.<sup>5</sup>

Even a moderately progressive tax, says he, will not suffice to bring about justice and equality, because it would not restrict the rich man in the same degree as the poor man in the satisfaction of his necessities. For since we are all citizens of the same state and each the equal of the other, there can be no true equality or justice in taxation unless the taxes reduce us all to the same economic level.<sup>6</sup> For to have too much wealth does not do any one any good, but on the contrary is a dangerous thing not only

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<sup>5</sup> As Guicciardini died in 1540 the essays were probably written at the beginning of the sixteenth century. The two essays were first published separately under the title, "La decima scalata in Firenze," 1849, but were afterwards included in Guicciardini's *Orcere Inedite*, vol. x, 1867, p. 353 *et seq.* The first one to call attention to these arguments was Canestrini, *La Scienza e l'Arte di Stato desunta dagli Atti ufficiali della Repubblica Fiorentina.. Parte I.. L'Imposta sulla Ricchezza mobile e immobile*, 1862, 219 *et seq.* Ricca-Salerno, *Storia delle Dottrine Finanziarie in Italia*, 1881, 36 *et seq.*, 2 ed. 1896, 73 *et seq.*, also refers to them. Since the first edition of the present work appeared, Dr. Grabein has quoted liberally from Guicciardini in an article in Schanz, *Finanz Archiv*, xii (1895), p. 11-24.

<sup>6</sup> "Anzi il povere può dolersi e chiamare questa gravezza ingiusta e ineguale, perchè la non sconcia nelle cose necessarie i ricchi parimenti come lui . . . Questa sarebbe la giustizia e la equalita delle gravezze, se le fossero di sorte, che così come noi siamo cittadini di una medesima città, tutti oggi di pare l'uno all'altro, le ci riducessino anche tutti in uno medesimo modi vivere."



for the body politic, but for the citizens at large, and even for the owners themselves.<sup>7</sup> If, then, we introduce the progressive principle we shall become truly equal as we reasonably ought to be.<sup>8</sup>

Later on, not to speak of the mediaeval socialists, we find the same theory during the French Revolution. The Jacobins especially were ardent upholders of the principle. Thus, in 1793, in adopting the theory of progression, they declared that they desired to employ a progressive tax in order to reduce all fortunes to a level of 4,500 livres' income.<sup>9</sup> Robespierre thought that even this allowance was too liberal, and desired to make 3,000 livres the maximum. A little later, however, as will be shown below, he qualified his conclusions. Furthermore, Ramel, in presenting the scheme of progressive taxation to the Convention, which, it will be remembered, soon adopted the project,<sup>11</sup> made a distinction between a forced loan, levied only once, and a regular system of progressive taxes. "Even in the latter case," said he, "while the rate ought never regularly to reach 100 per cent, the object must be to lead gently to an equality of wealth."<sup>12</sup>

<sup>7</sup> "L'avere troppe possessioni non fa bene alcuno, ma infiniti danni alla città, e ai cittadini e a quelli medisimi che l'hanno."

<sup>8</sup> "Così diventaremo tutti veramente pari, come ragionevolmente dobbiamo essere."

<sup>9</sup> "Impossible de mieux déraciner les fortunes: quant à celles que nous ne renversons pas d'un seul coup, nous les abattons par morceaux, et contre elles nous avons deux hâches. D'un côté nous décretions l'impôt progressif, et sur cette base nous établissons l'emprunt forcé; nous séparons dans le revenu le nécessaire de l'excédant; selon que l'excédant est plus ou moins grand, nous en prenons le quart, le tiers, la moitié et passé 9000 livres, le tout; au delà de sa mince réserve alimentaire la plus opulente famille ne gardera que 4500 livres de rente. Quoted in De Retz de Serviez, *De l'Impôt Progressif*, 1904, pp. 31-32.

<sup>10</sup> See above, p. 33.

<sup>11</sup> "Quelque système de contribution progressive que vous adoptiez, il n'entrera jamais dans vos vues de l'établir tel qu'à une somme

Shortly afterwards Babeuf declared that progressive taxation, while it could not go to the root of the social evils, was a useful tool to split up property, to prevent large fortunes and to remove luxury. "L'impôt progressif," if it could be successfully assessed, "serait un moyen efficace de morceler les terres, d'empêcher la cumulation des richesses, et de bannir l'oisiveté et le luxe." But "cette manière d'asseoir l'impôt serait, tout au plus, un acheminement au bien; elle pallierait le mal, mais elle n'en couperait la racine."<sup>13</sup> The three methods of attaining equality were in his opinion the partition of land, sumptuary laws and progressive taxation.<sup>14</sup>

Since the French Revolution the same idea has almost uniformly been a part of the socialistic creed, whether among the communists, the early sentimental socialists or the American populists. In France, for instance, we find it developed by Decourdemanche, one of the disciples of St. Simon,<sup>15</sup> as well as by a number of writers in the

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quelconque il pose un terme à la fortune des citoyens. Vous ne mettrez point des bornes ni à l'emulation ni à l'industrie des citoyens; mais vous ferez des lois sages, qui, après avoir laissé aux hommes la jouissance du fruit de leurs travaux, ramèneront par des voies douces, au niveau de l'égalité les fortunes qui en sont sorties." Cf. Gomel, *Histoire Financière de la Législative et de la Convention*, ii, (1905), p. 115.

<sup>13</sup> P. Buonarroti, *Conspiration pour l'Egalité dite de Babeuf*, 1828. i, p. 86.

<sup>14</sup> *Ibid.*, i, p. 85. Babeuf's early ideas were in favor of proportional taxation. He so interpreted the term faculty as used in the decrees of the National Assembly, in a pamphlet entitled: *Reclamation de la Ville de Roye, relative au Remplacement de l'Impôt des Aides, et à l'exécution des Décrets de l'Assemblée Nationale qui prononcent que tous les Impôts doivent être repartis sur chaque Citoyen en proportion de ses Facultés*, etc. 1790. See Victor Advielle, *Histoire de Gracchus Babeuf et du Babouïsme d'après de nombreux Documents inédits*. 1884, i, p. 491-492.

<sup>15</sup> Decourdemanche, *Lettres sur la Législation dans ses Rapports avec l'Industrie et la Propriété. 12e Lettre. Considérations gén-*

Revolution of 1848.<sup>16</sup> In Switzerland the socialist theory is found in its naive form in Obermüller, who advocates a rate rising to fifty per cent.<sup>17</sup>

In the United States the same doctrine has been advocated on analogous grounds, especially by the Populists. For over a decade, from 1888 on, the scheme was developed in numerous publications by W. W. Marshall, under the name of "cumulative taxation." During several years, beginning in 1895, he even edited a special periodical on this subject, *The Graduated Taxpayer*, devoted, according to the prospectus, "to a system of taxation calculated to limit the growth of abnormal private fortunes, prohibit excessive combinations, trusts and monopolies, and lighten the tax burdens of the less wealthy who are now required to pay a share disproportionately large." Among his collaborators was Percy Daniels, Lieutenant-Governor of Kansas, and author of a graduated tax bill introduced into Congress about this time.<sup>18</sup> With the disappear-

érales sur les Finances. *Extraite du Globe du 1<sup>er</sup> Août, 1831.* *Ibid.*, 14<sup>e</sup> Lettre, 6 Sept., 1831.

<sup>16</sup> Such as Danré, *Question de la juste Répartition de l'Impôt résolut arithmétiquement et Défense de l'Impôt Progressif.* 1845.

<sup>17</sup> W. Obermüller, *Das Gütergleichgewicht. Eine Lösung der Frage: Wie ist dem Elende der arbeitenden Volksklassen abzuhelfen?* Konstanz, 1850, p. 20.

<sup>18</sup> The chief writings of Marshall are as follows: *The Industrial Hand Book*, Garden City, 1888; *Cumulative Taxation*. Winfield, Kan., 1890; *The Tax Solution*, Berlin, Pa., 1893; *The Graduated Tax Payer*, vol. I, no. 1, to vol. III, no. 2, Berlin, Pa., 1895-1897; *Industrial Charts Showing at a Single Glance the Bad Effects of Monopolistic Over-Profiting, the Prevention of the Same, and the Good Results to Follow*, Berlin, Pa., 1895; *Deprofitization*, Chicago, 1899.

The chief writings of Percy Daniels are: *The Sunflower Tangle over Problems of Taxation*. Girard, Kan., 1894; *A Crisis for the Husbandman with Supplement containing Graduated Tax Bill*, Girard, Kan., 1891; *A Lesson of To-day and a Question of To-morrow*, Girard, Kans., 1892.

ance of the Populist movement, however, the agitation for a graduated income tax to cut down the earnings of the large industrialist to the level of the small entrepreneur subsided.

Finally, even in the case of the economists we find the principle already expressed in the third quarter of the eighteenth century by von der Lith.<sup>19</sup> Since then it has been occasionally urged, as of late by the German economist, von Scheel.<sup>20</sup> The great mass, however, even of the German economists, including most of Wagner's own pupils, repudiated the principle.<sup>21</sup>

The most recent development of the doctrine, however, is to be found in France, where M. Dufay has become its prominent apostle.<sup>22</sup> M. Dufay contends that taxation has not only an economic or fiscal role to play,

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Other publications of sympathizers with this movement during the same period were: Chas. M. Howell, *Practical Methods of Equalizing Taxation and Limiting the Growth of Abnormal Private Fortunes*. Berlin, Pa., 1895; M. Jacobson, *An Ounce of Prevention to save America from having a Government of the Few*, Berlin, Pa., 1895.

<sup>19</sup> "Ein weiser Regent wird mithin die Steuern dazu anwenden, um die gemeldete Ungleichheit des Vermögens seiner Unterthanen zu vermindern. Wenigstens wird er dieselbe nicht durch die ungleichen Anlagen vermehren." J. W. von der Lith, *Neue vollständig erwiesene Abhandlung von den Steuern*, 1766, sec. 36. Von der Lith, however, desires to apply this idea primarily to an excise on luxuries. It is only in time of great need that he would apply it also to the direct property tax.

<sup>20</sup> v. Scheel, "Die progressive Besteuerung." In *Tübinger Zeitschrift für die gesammte Staatswissenschaft*, vol. 31 (1875), p. 273. He bases his demand on what he calls the socio-political reasons, thus using the same term which Wagner later adopted.

<sup>21</sup> The most recent is M. von Heckel, *Lehrbuch der Finanzwissenschaft*, 1907. See vol. i, pp. 126 *et seq.*

<sup>22</sup> In a book entitled *L'Impôt Progressif en France*, 1904. The second edition, much enlarged, appeared in 1905. In 1906 he published a smaller work entitled *L'Impôt Progressif sur le Capital et le Revenu*.

but what he calls a moralizing role. Taxation, he tells us, must "maintain within a just limit the particular appropriation of wealth produced at least indirectly by the labor of all; it must maintain among men a certain real equality, correcting and attenuating the effects of individual egoism and of extreme natural equality."<sup>23</sup> In other words, the role of taxation is "to free labor, instead of compressing or restraining it, as at present." Hence taxation must "abstract from capital its excessive power and give to labor a social and economic power which it still has to an inadequate degree."<sup>24</sup>

If, therefore, the "socio-political" argument were the only defense of progressive taxation, it is plain that it could not be successfully upheld. While Professor Wagner would undoubtedly warmly resent the imputation of socialism, there is in the fiscal domain, at least, a scarcely discernible line of separation between socialism and the socio-political theory.<sup>25</sup> The "socio-political" argument, which undoubtedly lies at the basis of many of the demands for progressive taxation, must, therefore, be rejected by those who are not prepared logically to enroll

<sup>23</sup> "L'impôt doit avoir pour objet de maintenir dans une just limite l'appropriation particulière de la richesse produite au moins indirectement par le travail de tous; il peut et doit maintenir entre les hommes une certain égalité réelle, corrigeant ou atténuant les effets de l'égoïsme individuelle et de l'extrême inégalité naturelle." *L'Impôt Progressif en France*. 2nd ed., 1905, p. vi.

<sup>24</sup> "C'est non seulement un rôle économique, mais un rôle moralisateur qu'il doit jouer, un rôle d'affranchissement du travail au lieu du rôle de compression qu'il joue actuellement. Il doit contribuer à enlever au capital ce qu'il a d'excessif dans sa puissance et rendre au travail une puissance sociale et économique qu'il n'a plus aujourd'hui à un degré suffisant." *Ibid.*

<sup>25</sup> Professor Wagner's views, which, as stated in the text, have found scarcely any acceptance in his own country, seem to be shared in part, at least, by Professor H. C. Adams, who somewhat objects to what he terms the vigor of the above attack. See his *Science of Finance*, 1898, p. 342.

themselves among the socialists. Unfortunately, however, most of the middle classes, as well as many professed economists, have confounded the economic theory of progressive taxation with the socialistic theory, and have assumed that progressive taxation necessarily implies socialism and confiscation.<sup>26</sup>

This is, perhaps, the reason of the fierce denunciation with which the project of progressive taxation has often been met. Thus, at the time of the discussion of the first income tax in the English parliament, in 1799, Lord Auckland said that graduated taxation was outright revolutionary.<sup>27</sup> The German statesman, Gentz, said at about the same period that progressive taxation was not much better than common thievery.<sup>28</sup> Some time previously, when Turgot, the celebrated French statesman, was presented with a project of progressive taxation, he wrote on the margin: "We must execute the author, not the project."<sup>29</sup> John Stuart Mill calls it "graduated robbery"; Dupont maintains that progressive taxation is socialistic and revolutionary;<sup>30</sup> Leroy-Beaulieu claims that

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<sup>26</sup> This is true of a whole host of writers in every language. The ablest American exponent of this view is Mr. David A. Wells. Cf. his "The Communism of a Discriminating Income Tax," (by which he really means "The Socialism of a Progressive Income Tax"), *North American Review*, March, 1880. Cf. for Italy, Garofalo, *La Superstizione Socialista*, 1895.

<sup>27</sup> Progressive taxation "would be contrary to all the safety and rights of property"; it would "be worthy only of the French Council of Five Hundred"; and it "would amount to neither more nor less than the introduction of a plan for equalizing fortunes," etc. Cf. *The Substance of a Speech made by Lord Auckland in the House of Peers upon the Bill for granting certain Duties upon Income*, 1799, p. 25.

<sup>28</sup> Gentz, in *Historische Journal*, 1709, p. 3. Quoted in Murhard, *Theorie und Politik der Besteuerung*, 1834, p. 544.

<sup>29</sup> "Il faut exécuter l'auteur, et non le projet."

<sup>30</sup> "L'impôt progressif c'est véritablement le socialisme dans l'impôt

"its mother is envy and its daughter oppression";<sup>31</sup> Es-sarts characterizes it as the result of the envy of the "have-nots" which they subsequently seek to defend by sophistical arguments;<sup>32</sup> Stourm thinks that it is an instrument of general spoliation and confiscation;<sup>33</sup> and Umpfenbach describes it as the realization of communism and an extreme absurdity, fit only for a community permeated by murderous tendencies.<sup>34</sup>

Notwithstanding these extreme statements, however, it is erroneous to assume that progressive taxation necessarily implies socialism and confiscation. It is possible to repudiate the socialistic theory of taxation, and yet at the same time to advocate progressive taxation on purely economic grounds. One may in fact be an arch individualist, and nevertheless believe in progressive taxation. We shall see the truth of this when we take up the arguments of the individualistic school of progressive taxation.

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. . . c'est évidemment l'impôt révolutionnaire." Etienne Dupont, *De l'Impôt*, 1852, p. 23.

<sup>31</sup> "L'impôt progressif a pour mère l'envie et pour fille l'oppression." Paul Leroy-Beaulieu, *Traité d'Economie Politique*, 2nd ed., 1896, iv, p. 764.

<sup>32</sup> It is "la traduction du sentiment de l'envie du non-possédant contre le possédant, qu'on essaye après coup de justifier par des raisonnements plus ou moins sophistiques." M. des Essarts in *Discussions de la Société d'Economie Politique*, 5th année, 1898.

<sup>33</sup> "Un instrument du nivellement universal" which "aboutit de lui-même à la spoliation" "on s'empare de lui pour réaliser l'égalité social par la suppression de l'hérité et la confiscation des fortunes au delà du nécessaire.—R. Stourm, *Systèmes Généraux de l'Impôt*, 1893, p. 240.

<sup>34</sup> "Eine himmelschreiende Absurdität" suitable "für ein Gemeinwesen, welches von selbstmörderischen Tendenzen durchdrungen, die Annulierung des Privateigenthums und die Verwirklichung des Kommunismus unter heuchlerisch beschönigender Form herbeizuführen trachte"—Umpfenbach, *Lehrbuch der Finanzwissenschaft*, 1859.

Before considering these theories, however, it may be well to notice briefly the views of those who occupy a middle ground and who uphold progressive taxation for reasons not directly connected with either the socialistic or the so-called economic arguments. We come thus to what may be termed the compensatory theories of progressive taxation.

President Walker, for instance, bases his defense of progressive taxation on two considerations: first, "the undoubted fact that differences of property and income are due, in no small degree, to the failure of the state in its duty of protecting men against violence and fraud," and secondly, "that differences in wealth are, in a measure, due to the acts of the state itself, having no political purpose, as treaties of commerce, tariffs, currency legislation, embargoes, non-intercourse acts, wars, etc." He argues that where differences of wealth may fairly be presumed to be in a measure due to the state's own acts of omission or commission, allowance should be made therefor in the tax system.<sup>85</sup> He concludes that "were the highest human wisdom, with perfect disinterestedness, to frame a scheme of contribution, I must believe that the progressive principle would in some degree be admitted."

This defense of progressive taxation is in many respects interesting. It is, however, really not new with President Walker. Progressive taxation was first advocated at length on this ground in the remarkable work of a woman, Mlle. Royer, which was crowned by the Council of State of Vaud, in Switzerland, at the time of the great international convention on taxation in Lausanne in 1860.<sup>86</sup> Mlle. Royer takes the ground that it is the duty

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<sup>85</sup> Walker, *Political Economy*, 1st ed., 1883, p. 479-480. In the 3rd edition (1888) these passages are omitted although the general conclusion is still retained.

<sup>86</sup> Five monographs out of forty-five received prizes,—those of

of the state to compensate individuals for the "accumulated results of legal iniquities," and that "the present ought to atone for the heritage of injustice bequeathed by the past." This can, however, in her opinion be accomplished only through some form of progressive taxation.<sup>37</sup>

The same idea, in fact, is already found in the French writer Villiaumé, who upholds progressive taxation on the ground that "taxation ought to counterbalance the inequalities consecrated by custom and by law."<sup>38</sup> Another earnest advocate of the compensatory theory is the noted economist, Courcelle-Seneuil. Progressive taxation, says he, is in itself neither good nor bad. Up to a certain point it is highly desirable; beyond that it becomes pernicious. That is to say, since the possession of wealth obviously gives the rich many advantages over the poor, and since the legal conditions of society naturally favor the rich, a progressive tax which would attenuate and diminish these advantages of the rich would be desirable

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Proudhon, Lassaut (a Parisian lawyer), Mlle. Royer, Professor Walras and M. Romiol. Proudhon, Walras and Mlle. Royer published their works, each of which will be noticed in the course of this discussion.

<sup>37</sup> The characteristic passages are as follows: "L'idéal de la justice distributive consiste à réparer les inégalités et les torts de la nature. Au contraire, dans le passé, la légalité si souvent contraire à la justice a toujours aggravé ces inégalités et ces torts. Il faut maintenant compenser avec lenteur et prudence ce que cette action de la loi a eu de fureste dans le passé." And again: "Dans le cas particulier où le présent doit réparer un héritage d'iniquité léguée par le passé, la proportion peut être plus ou moins progressive, suivant qu'on veut compenser plus ou moins rapidement, l'écart produit dans les conditions sociales par le fait de ces iniquités légales accumulées." Clémence Auguste Royer, *Theorie de l'Impôt ou la Dime Sociale*, 1862, i, p. 64. Cf. chap. iv, p. 47.

<sup>38</sup> "L'impôt doit contrebalancer les inégalités consacrées par les moeurs ou les lois." Villiaumé, *Nouveau Traité d'Economie Politique*, 1857, p. 137. See also 2nd edition (1866), pp. 238 and 244.

and equitable. To go beyond this limit, however, and to weaken the desire to acquire wealth would be in his opinion an irreparable misfortune.<sup>89</sup> It is true that Courcelle-Seneuil's ideal is a tax on consumption, rather than on income; but the fact remains that he favors the progressive scale for the reason noted.

The compensatory theory of progressive taxation, is however, not convincing. Its defect consists in the point to which President Walker himself alludes. It is useless as a standard. For it is clearly impossible to lay down any general principles by which this influence of the state in creating inequalities of fortune may be measured. If progression is regarded as an inequality, it is not permissible to correct one inequality by another, unless it could be shown that the second inequality would in every respect fit into, and counterbalance, the first. The test, in other words, is impracticable. If this were the sole defense of progressive taxation, it might be as well to abandon the contention at once. What are here termed the economic arguments have, however, not been alluded to by President Walker, although they are of far more importance.

Of a similar character, although of somewhat greater force, is the argument which upholds progression in some

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<sup>89</sup> "Si la progression de l'impôt était telle qu'elle pût éteindre ou diminuer sensiblement le désir de s'enrichir, elle porterait un coup funeste et peut-être irréparable à la production. Mais si la progression était médiocre, elle compenserait à peine les avantages nombreux que l'appropriation par l'échange assure aux citoyens riches, et ne découragerait personne; elle ne rétablirait pas même l'égalité des conditions dans le concours ouvert entre les riches et les pauvres. . . Le but de l'impôt progressif ne doit pas être de détruire, mais seulement de diminuer les avantages que procure naturellement aux riches sur les pauvres la possession d'une grande fortune." Courcelle-Seneuil, *Traité théorique et pratique d'Economie Politique*, 2nd ed., 1867, ii, p. 206.

one particular tax on the ground of its acting as a counterpoise to the influence of other taxes. When indirect taxes exist, they often, it is said, act regressively and hit the poor harder than the rich. The direct tax, with its progressive scale, is designed to act as an engine of reparation. In order to attain equal treatment the regressive indirect taxes must be counterbalanced by the progressive direct tax. This argument is occasionally found as a secondary plea with socialist writers. Such is for instance the case with Gilardeau who advocated what he calls the "impôt proportionnel-progressif" on the ground not only that a graduated scale is just in itself, but that the existing indirect taxes are regressive in their character.<sup>40</sup> In general however this is the favorite argument with those who seek to defend some particular progressive tax while yet upholding the general principle of proportion. With such writers, proportionality of taxation is still the real ideal, but the departure from proportional taxation in one direction must be met by an equal departure in the opposite direction. This argument might be termed the "special compensatory theory" as against the general compensatory theory. The general compensatory theory defends progression as a general principle; the special compensatory theory aims at proportion in general, but is willing to accept progression in some particular tax in order the better to realize the ultimate proportion.

This contention is undoubtedly of some force in tend-

<sup>40</sup> "Tous les impôts indirects existant aujourd'hui constituent réellement une régression que l'on est assez disposé à maintenir, malgré son évidente iniquité. Ainsi l'impôt indirect, dont l'égalité n'est qu'apparente, agissant en sens inverse de l'impôt progressif ne frappe pas seulement le superflu, il touche en passant le nécessaire, et va atteindre ensuite la source même de la vie du pauvre et de leur travail."—Gilardeau, *De l'Impôt et du Crédit*, 1849, p. 44.

ing to justify a progressive income or property tax in practice without upholding general progression in theory. Some of the fiercest opponents of the general theory of progression favor a progressive income or property tax on this ground.

Among the earliest upholders of this doctrine is Riverieulx, who advocated a progressive land tax notwithstanding his conviction that progression in general was pernicious.<sup>41</sup> So Nasse champions a progressive income tax as a compensation for the regressive taxes on expense which bring about an "umgekehrte Progression."<sup>42</sup> The same is true of Scialoja.<sup>43</sup> The latest advocate of this doctrine is Gaston Gros.<sup>44</sup> So again a progressive rentals tax is frequently upheld as being in reality a proportional tax, because of the fact that as house rent decreases, its proportion to expenditure or income increases, especially in the middle and lower classes. Even such an ultra-conservative as Leroy-Beaulieu advocates progression here, without recognizing the fact that the argument is applicable to other taxes as well. Progressive taxation of this kind is therefore really taxation proportional to income or property.

Let us, however, pass over these arguments in favor of what may be called only ostensible progression, and consider the economic arguments that may be advanced for and against progressive taxation as a general theory.

The real contest between the principles of proportion and progression turns about the fundamental question as

<sup>41</sup> Riverieulx, *De l'Impôt Territorial Gradué, Conservateur de la Propriété*, 1816, p. 14.

<sup>42</sup> Nasse, *Gutachten über Personalbesteuerung*, in *Schriften des Vereins für Social politik*, iii, (1877), p. 14.

<sup>43</sup> Cf. Scialoja, *I Principi di Economia Sociale*, 1840, p. 246.

<sup>44</sup> He speaks of "ce caractère de redressement compensateur des injustices inhérentes aux taxes de consommation." Gaston Gros, *L'Impôt sur le Revenu*, 1907, p. 70.

to the basis of taxation—the theory of the benefits or the theory of ability. On the one hand we have the contention that a man should pay taxes in proportion to the benefits that accrue to him from the state—the so-called give-and-take, or *quid-pro-quo* doctrine, also known as the enjoyment, or bargain-and-sale, or exchange, or reciprocal, or social-dividend theory. Of this, minor variations are the protection and insurance-premium theories.<sup>45</sup> They all in last resort mean taxation according to benefits received, and we have hence summed them up under the name of the theory of benefits. On the other hand we have the doctrine that a man should pay taxes in accordance with his faculty or ability to pay, or contributive capacity; and as this faculty may be regarded from the two standpoints of production and consumption, it is to a certain extent affected by the degree of sacrifice which the taxpayer is called upon to make.

We must take it for granted in this place that the theory of benefits as the controlling principle in general taxation has been discarded in favor of the other theory. To prove this in detail, and to point out the considerations which limit the general theorem, would require a discussion which belongs rather to the general bases of taxation. The point which we desire to emphasize here is that the theory of benefits has usually led to the principle of proportion; and that the theory of the ability or sacri-

<sup>45</sup>The term *quid pro quo* was first used by J. S. Mill. The term "bargain-and-sale" theory is due to Henning, *A Just Income Tax, How Possible*, 1851, p. 5. The term "social-dividend" theory was adopted by Parieu, *Traité des Impôts*, 2nd ed., 1886, i, p. 30, but is first found in Chauvet. The term "exchange" theory is due to Proudhon, who boldly declared "l'impôt est un échange." The term "enjoyment" theory (*Genuss-theorie*) is the one commonly used by the German writers. The term "reciprocal" or "reciprocity" theory is due to Cooley, *Law of Taxation*, p. 14, who speaks of taxation and protection as reciprocal.

fice has usually led to the principle of progression. This has, however, not been universally true. For in a few cases the theory of benefits has led to the principle of progression, while the theory of ability has sometimes led not only to the principle of proportion, but also to the principle of degression rather than of progression. It will be our function to subject these various theories and conclusions to a detailed criticism in order to ascertain, which, if any, is the defensible doctrine.

## CHAPTER II.

### THE BENEFIT THEORY.

The old doctrine of taxation was that of benefits. It held that taxes must stand in a definite relation to the advantages derived by the individual citizen. Since protection was generally regarded as the chief function of the state, the conclusion was drawn that taxes must be adjusted to the protection afforded. Taxes were looked upon as premiums of insurance which individuals paid to the collective insurance company—the state—in order to enjoy their possession in peace and security.

The natural conclusion from this doctrine was proportionality of taxation. The larger a man's property or income, the greater are the benefits that accrue to him from the protection of the state. An insurance company fixes its premiums in exact proportion to the value of the property; for the value of the property determines the extent of the risk. So in the same way the state must charge for its activities and exertions, proportioning each charge to the amount of its efforts, and measuring the expenditure of the effort by the exact amount of the property or the income protected. The logical outcome of this theory was declared to be the proportional taxation of all property or income.

This conclusion, however, was first modified, and then openly attacked. The modification consisted in the introduction of the theory of the exemption of the minimum of subsistence. As regards the property tax this took the shape of the demand of a proportional taxation not of all property, but of all property in excess of a definite minimum. As regards the income tax, the modification

was known as the clear-income theory of taxation. This theory was not much else than the acceptance of the Ricardian view of income. Ricardo says that "the power of paying taxes is in proportion to the net, and not in proportion to the gross revenue."<sup>1</sup> By net income he means gross income less expense of production. The advocates of the clear-income theory however, held that the laborers' outlay for necessities also constituted an expense of production. Hence the demand for the exemption of the minimum of subsistence. Moreover, some writers went further and extended the conception of clear income. They maintained that not only the necessary expenses of sheer subsistence, but also the expenses which contribute to maintain a standard of comfort, should be declared expenses of production. The amount of income exempted would thus be considerably larger. The excess, however, or the clear income over and above these expenses of production, should still be taxed proportionately, because of the benefit theory.<sup>2</sup> The taxable income is the clear income. Proportional taxation, therefore, means proportional taxation of clear income only.

It is plain that this is proportional taxation only in a very peculiar sense, and that proportional taxation of clear income, *i. e.*, income above a fixed minimum, is actually degressive taxation of total income. Thus without being aware of it many advocates of so-called propor-

<sup>1</sup> Ricardo, *Principles of Political Economy and Taxation*, chap. xxvi. For a history of the clear-income and total-income theory see Schmoller, "Die Lehre vom Einkommen in ihrem Zusammenhang mit den Grundprinzipien der Steuerlehre," in *Tübinger Zeitschrift für die gesammte Staatswissenschaft*, vol. xix (1863), pp. 1-86. Cf. also Meyer, *Das Wesen des Einkommens*, 1887, introduction, pp. 1-28.

<sup>2</sup> This is not intended to convey the impression that all the advocates of the clear-income doctrine were believers in the give-and-take theory. We shall see later that this is not the case.

tional taxation really favor non-proportional taxation. It may be said, moreover, in criticism, that this idea of clear income is open to serious objection. For as soon as we extend the idea of minimum of subsistence so as to include a standard of comfort—that is, as soon as we claim that not only absolutely necessary, but also relatively necessary expenses should be deducted,—clear income or taxable income becomes a variable quantity, because a variable, rather than a fixed, minimum must be deducted in each case. Since wealthier individuals generally have a higher standard of life—for they consider almost as necessaries what the poor regard as luxuries—it would follow that the wealthier a man is, the greater, up to a certain point, should be the amount exempted from taxation. Proportional taxation of clear income might in this case be regressive, in lieu of degressive, taxation of total income; it might actually tax the poor man more than the rich man. Clearly, therefore, if the idea of clear income be accepted at all, it must be restricted to the surplus above a fixed minimum of necessary subsistence.

Not only was the doctrine of proportional taxation modified in this way, but it was soon formally attacked, and from two sides. On the one hand the inadequacy of the basis was pointed out: it was affirmed that taxes cannot and should not be proportioned to benefits. On the other hand, while the basis was still upheld, the validity of the conclusion was impugned. That is, it was still asserted that taxes must be paid in accordance with benefits; but it was shown that benefits were not proportional to property or to income. Let us consider the last objection first, especially since it has been almost completely overlooked.

The benefits to the individual, said some writers, increase faster than his property or income. Most of the

public expenses are incurred to protect the rich against the poor, and therefore the rich ought to contribute not only actually, but relatively, more. Certain governmental expenses, other writers affirmed, confer an equal or proportional benefit on all; but there are many kinds of governmental outlay which have a special value for the rich, without losing their equal value for all. Others again confessed that the benefits of state action are theoretically enjoyed by all, but maintained that practically the benefits accrue only to the wealthier classes. Finally, some writers went so far as to invoke the aid of mathematics, and endeavored to prove that protection actually increases faster than property or income. The value of state protection to a man worth one million dollars is not ten times as much as its value to the man worth one hundred thousand dollars, but far more than ten times as much. The insurance argument, these writers assert, proves the contrary of what it is intended to prove. For insurance companies fix their premiums not only in proportion to the amount insured, but also according to the risks, so that the same amounts often pay different premiums. A million dollars belonging to one man is in greater risk of being stolen or pillaged than the same amount distributed among several men. Therefore the tax-rate or insurance premium ought to be higher. Thus from all these different points of view writers who firmly believe in the benefit theory are compelled, logically as they think, to demand progressive taxation.

The situation is a curious one. The benefit theory is usually regarded by its opponents as a narrow, extremely individualistic, almost atomistic, doctrine. The plea for progressive taxation is usually branded by the individualists as a socialistic argument. Yet here we have arch-individualists demanding what other individualists regard

as arch-socialism. It is a remarkable outcome of individualism.

In reality, however, this defence of progressive taxation is not very strong. Far from being the fact that the value of protection increases faster than property, the reverse is true. A man without any income or property at all may have more money spent on him in the poor-house than hundreds of men with moderate incomes. The millionaire who is able to hire his own watchmen, his own detectives, his own military guard, and who often relies more on his individual efforts than on the government for the protection of his property, may cause the state less expense than the man of smaller means who must depend entirely on the government. The rich man sends his children to private schools and colleges, the poor man has his family educated in the public schools. The rich man has his street swept by a hired laborer, the poor man has his cleaned at the expense of the city. The activity of the state is up to a certain point subject to the law of increasing returns. If we are to have any comparison at all between state action and private business, the state may be compared to a railroad, whose business may increase considerably without entailing a proportionate increase of outlay, because of the fact that certain expenses are fixed, not variable charges. It does not cost the state ten times as much to settle a one thousand dollar lawsuit as it does to settle a one hundred dollar litigation. Certain expenses of government indeed vary with the value of the property, but the great majority increase in a less than proportionate ratio. From the standpoint of benefits conferred, who would have the hardihood to say that the poor man does not value the protection afforded to his life and property just as highly as the rich man? As we have just seen, he frequently values it far more highly,

because of his entire dependence on the state. Hence if protection or benefit is to be the sole test of taxation, the scale should be graduated downward, instead of upward; for neither the protection nor the benefits grow in proportion to the property or income. Logically, thus, it might seem that the poor man should then pay relatively more than the rich man.

This whole method of argument, however, is inconclusive. The question of advantages which an individual derives from governmental action is a psychological one. It does not logically lead either to proportion, or to progressive or to regressive taxation. The degree to which a taxpayer values the public art galleries, or the public concerts, or clean streets, or the decisions of the courts, or the thousand and one other benefits conferred by state action, depends on a multiplicity of motives which may differ in every individual case. A poor man may value them more, or he may value them less, than a rich man. Two equally rich men may value them in entirely different degrees. There is no exact and absolute measure of advantages. It is quite impossible to apportion to any individual his precise share in the benefits of governmental activity. The advantages are quantitatively immeasurable.<sup>8</sup> Proportional taxation as a necessary outcome of the benefit theory is just as illogical as progressive taxation based on the same theory.

It is the force of this conclusion which has induced most of the recent writers to abandon the premises that made the conclusion possible. Some of the advocates of the give-and-take theory, however, sought to uphold the general doctrine on slightly different grounds. It was

<sup>8</sup> Cf. the discussion of benefits as both the reason and the measure of taxation in the author's address on the single tax, in *The Single Tax Discussion, reported for the American Social Science Association, 1890*, pp. 40-44.

confessed that the protection theory or the insurance theory of taxation is indefensible. The partisans of the give-and-take theory, however, now maintained that taxes should be proportioned to the cost of service. Not the value of the protection to the individual, but the cost of the service to the government is the test. Every man must pay the state for such service just what it costs the state to afford that service. This is still the exchange or *quid-pro-quo* theory; but it is a variation from the untenable protection or insurance doctrine.

The cost-of-service theory, however, was soon found to be just as unsatisfactory as the other variations of the give-and-take theory. There is indeed no doubt that some payments made by individuals for particular services should represent as nearly as possible the cost of service to the government. In this all modern writers are agreed. Such payments, however, are not taxes. They are known in public finance as fees, or what Adam Smith called "particular contributions."<sup>4</sup> Fees, however, are not taxes properly so called. For just as it is impossible to apportion taxes in general according to the criterion of protection or insurance, because it is impracticable to measure the exact benefits of general government activity accruing to the individual, so in the same way it is impossible to apportion taxes in general according to the cost of each particular service, because it is impracticable to separate the individual's share in the total cost of general state expenses. The cost-of-service theory is just as inadequate as the protection or insurance theory. They are both variations of an indefensible whole.

Thus the entire give-and-take principle came to be abandoned as the foundation for a scientific treatment of

<sup>4</sup> Cf. the chapter on "The Classification of Public Revenues," in Seligman, *Essays in Taxation*, 5th ed., 1905.



taxation. When the theory of benefits, however, was discarded as the sole explanation of taxation, it became necessary to substitute for it another basis. In its stead there has been put the doctrine of ability or faculty. Every individual should be taxed in accordance with his faculty, or his ability to pay. The meaning ascribed to these terms and the conclusions to be drawn from this principle we shall learn later on. Let us first study more in detail the arguments of those that espouse the theory of benefits.

## HISTORICAL APPENDIX I.

### THE BENEFIT THEORY LEADS TO PROPORTION.<sup>1</sup>

One of the first advocates of this doctrine was Hobbes. Hobbes' theory of taxation was an outgrowth of his general political principles. Since the state was simply a necessary escape from the original *bellum omnium contra omnes*, the revenues of the state, or taxes, must be regarded as the price paid for the peace purchased. Equality is the universal rule of taxation, but this equality means an equality of the burden, that is, an equality between the burdens imposed and the benefits received. The benefits conferred upon the individual are thus the real test of taxation. Taxes must be proportional to benefits and the chief benefit is the protection afforded.<sup>2</sup> It is

<sup>1</sup> A few of the writers discussed in these historical appendices are referred to in Held, *Die Einkommensteuer*, 1872, pp. 121-135, and in Neumann, "Die Steuer nach der Steuerfähigkeit," in *Jahrbücher für National-Oekonomie und Statistik*, vol. 35 (1880), p. 511. A fuller essay is that of Lehr, mentioned above, p. 2. Meyer's *Die Principien der gerechten Besteuerung*, 1884, contains a good history of some of the principles of taxation, including an account of progressive taxation, which must, however, be separated laboriously and piecemeal from the general discussion. These German writers pay but little attention to the French, and scarcely notice the English, Dutch and Italian literature which has become of considerable importance. The work of A. Chaguéraud, *L'Economie Politique et l'Impôt*, 1864, is composed of a series of extracts from a few of the French authors. Chapters i, iii and xiv (de l'impôt, l'impôt progressif, l'impôt sur le revenu) will be found useful for comparison. The recent monograph of de Retz de Serviez, *De l'Impôt progressif dans l'Histoire de la France, de 1789 à 1870*, 1904, gives a longer series of extracts from some of the French writers. Cf. also the essay of Grabein mentioned on page 135.

<sup>2</sup> "Ad tollendam ergo justam querimoniam, quietis publicae interest, et per consequens ad officium pertinet imperantium ut onera publica aequaliter ferantur. Praeterea cum id quod a civibus in

significant, however, that Hobbes lays down the rule that the best test of benefits is not property or income, but expense. The theory of benefits thus resolves itself into a proportional tax on expense. "For what reason is there," says Hobbes, "that he which laboureth much, and sparing the fruits of his labor, consumeth little, should be more charged, than he that living idly, getteth little, and spendeth all he gets; seeing the one hath no more protection from the commonwealth than the other? But when the impositions are laid upon those things which men consume, every man payeth equally for what he useth, nor is the commonwealth defrauded by the luxurious waste of private men."<sup>8</sup>

Among the earliest defenders of the contract theory of the state was Hugo Grotius; his theory of taxation is hence simply the give-and-take doctrine. In one sense, therefore, Grotius may be declared the originator of the benefit theory. He devotes but little space to taxation,

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publicum confertur, nihil aliud sit *praeter emptae pacis pretium*, rationis est ut ii qui aequae pacis participant, aequas partes solvant . . . Aequalitas autem hoc loco intelligitur non pecuniae sed oneris, hoc est aequalitas rationis *inter onera et beneficia*. Quamquam enim pace omnes aequaliter fruantur, non tamen beneficia a pace omnibus aequalia sunt. Nam alii plus, alii minus acquirunt. Et rursus alii plus, alii minus consumant." *De Cive*, chap. xiii.

In the *Leviathan*, Hobbes repeats his view in English: "To Equall justice appertaineth also the Equall imposition of Taxes; the Equality whereof dependeth not on the Equality of riches, but on the Equality of the debt that every man oweth to the Commonwealth for his defence. . . . For the Impositions that are layd on the people by the Soveraign Power are nothing else but the Wages, due to them that hold the publique Sword, to defend private men in the exercise of severall Trades and Callings. . . . Which considered, the Equality of Imposition, consisteth rather in the Equality of that which is consumed, than of the riches of the persons that consume the same." Chap. 30, part 2, p. 181, of the 1651 edition. (Reprint of 1881, p. 270).

<sup>8</sup> *Leviathan*, p. 271 of reprint of 1881.

but in a noteworthy passage, in which he discusses transit dues and tolls, he maintains that the burdens must be proportional to the benefits received in the shape of protection, and must not exceed this amount of benefit.<sup>4</sup> Taxation is, therefore, the price of protection.

In the same way Pufendorf declares taxes to be nothing but the price of protection, although he does not accept expenses as the test. The principle, however, must be that of proportion.<sup>5</sup> Many of the publicists of the following century simply repeat the same ideas.

When we come to the professed economists we find many of them taking the same view. The economist and statesman, Sully, had maintained as far back as the sixteenth century that taxes must be proportional to the benefits derived by the tax-payer and must, therefore, be in a direct ratio to his profits.<sup>6</sup> So the great fiscal reformer, Vauban, held that every one needs the protection of the state, that the prince cannot protect his subjects without

<sup>4</sup> "Quaeeritur an ita transeuntibus mercibus terra aut amne, aut parte maris quas terrae accessio dici potest, vectigalia imponi possint ab eo, qui in terra imperium habet. Certe quaecunque onera ad ilias merces nullam habent respectum, ea mercibus istis imponi nulla aequitas patitur. Sic nec capitatio, civibus imposita ad sustentanda reipublicae onera ab exteris transeuntibus exigi potest. Sed si ad praestandam securitatem mercibus aut inter caetera etiam ob hoc onera sustinentur, ad ea compensanda vectigal aliquod mercibus potest, dum modus causae non excedatur." Hugo Grotius, *De Jure Belli ac Pacis*, 1625, lib. ii, cap. 2, §14, 1.

<sup>5</sup> "Tributa nihil aliud atque merces quam singuli pendunt civitati pro defensione salutis et bonorum." Pufendorf, *De Jure Naturae et Gentium*, book vii, chap. v, p. 6. In his essay in the *Jahrbücher für Nationalökonomie*, mentioned above, Professor Neumann has collected a number of similar statements from the German and Dutch publicists of the 17th and 18th centuries.

<sup>6</sup> "L'impôt ne devrait être que la mise apportée par chaque individu dans la vie civile pour avoir part à ses bienfaits; il devrait être proportionné aux avantages qu'en retire le contribuable et prélevé sur ces bénéfices." Sully, quoted in De Girardin, *L'Impôt*, 1852, p. 150.

adequate funds, and that therefore everyone is under a natural obligation to pay taxes proportionally to his revenue.<sup>7</sup> It is true, indeed, that Vauban laid down these rules in order to enforce his great doctrine of universality of taxation, and that but little exception can be taken to his manner of statement; but the fact remains that he based his reasons on the theory of benefits, and deduced from this the doctrine of proportional taxation.

The earliest English scientific writer on taxation is Sir William Petty. Petty advances the benefit theory in the following words: "It is generally allowed by all that men should contribute to the Publick charge but according to the share and interest they have in the Publick Place; that is according to their Estates and Riches."<sup>8</sup> But Petty goes on to show that this demand of proportional taxation means a tax proportional to expense, "since there are two sorts of riches, one actual and one potential." His conclusion from the principle of benefits is, that it is "natural

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<sup>7</sup> Vauban's *Maximes Fondamentales* are as follows:

"I. Il est d'une évidence certaine et reconnue par tout ce qu'il y a de peuples polisés dans le monde, que tous les sujets d'un Etat ont besoin de sa protection, sans laquelle ils n'y sauraient subsister.

II. Que le prince, chef et souverain de cet Etat, ne peut donner cette protection si ses sujets ne lui en fournissent les moyens, d'où s'ensuit :

III. Qu'un Etat ne peut se soutenir, si les sujets ne le soutiennent. Or, ce soutien comprend tous les besoins de l'Etat, auxquels, par conséquent, tous les sujets sont obligés de contribuer. *De cette nécessité il résulte :*

Une obligation naturelle aux sujets de toutes conditions, de contribuer à proportion de leur revenu ou de leur industrie."—Vauban, *Dime Royale*, p. 1707. In *Economistes Financiers du xviii<sup>e</sup> siècle* (ed. Daire, 1843), p. 47.—"Il est raisonnable que tous contribuent selon leurs revenus." *Ibid.*, p. 56.

<sup>8</sup> Petty, *A Treatise of Taxes and Contributions*, 1677, chap. xv, p. 68. Petty uses the phrase, "ability to pay," when speaking of the poll tax. *Ibid.*, p. 43.

justice that every man should pay according to what he actually enjoyeth."<sup>9</sup>

The Physiocrats were all advocates of the theory of benefits and of proportional taxation, although their practical proposal was a single tax on land. Quesnay has not much to say about the philosophic basis of taxation, but he maintains that the best tax is that which is proportional to net produce.<sup>10</sup> To some it might appear doubtful whether the Physiocrats based their conclusions on the theory of benefits. This doubt, however, is soon dispelled when we remember the views of important members of the school like Turgot and the elder Mirabeau. Turgot held that taxation should be proportional to the benefits derived by the individual from the action of the state.<sup>11</sup> Moreover, we must not forget his answer to the demand of an enthusiast for progressive taxation: "We must execute the author and not the project."<sup>12</sup> Mirabeau the elder said that a tax is a payment made by the individual in return for the protection afforded by government since the expenses incurred by the state simply assure to the citizens an equivalent for what they give.<sup>13</sup> Taxes must

<sup>9</sup> Petty, *op cit.*, chap. xv, p. 72.

<sup>10</sup> "La forme d'imposition la plus simple . . . est celle qui est établie proportionnellement au produit net." Quesnay, *Notes sur les Maximes Fondamentales, etc. Maxime V.* In *Oeuvres Economiques*, ed. Oncken (1888), p. 339.

<sup>11</sup> "L'impôt ne devrait être que la mise apportée par chaque individu dans la vie civile pour avoir part à ses bienfaits; et devrait se proportionner aux avantages qu'en retire le contribuable." Quoted by Gardillot, *Principes de la Science des Finances*, i, 208. I have been unable to find this particular sentence in my edition of Turgot. As this is the same quotation as that on page 722, note 6, ascribed by de Girardin to Sully, I suspect that Gardillot has made a mistake. But that it correctly represents the general trend of Turgot's thought I do not doubt. Cf. Turgot's general views in his *Oeuvres*, (Daire's ed.), i, pp. 392-444.

<sup>12</sup> Cf. above, p. 141.

<sup>13</sup> "La contribution du Particulier n'est autre chose que le service

hence be proportional to the revenue of the citizens (although like the other Physiocrats he found this proportion chiefly in the single land tax).

Montesquieu's definition is well known: "The revenues of the state are a part of his property which each citizen gives in order to be sure of the other part, or in order to enjoy it in comfort."<sup>14</sup> While Montesquieu, however, thus advocates the protection theory, he defends the progressive principle, as we shall see later, for other reasons. The definition of Raynal is approximately the same: "Taxes are the sacrifice of a part of one's property for the protection and conservation of the rest."<sup>15</sup> In the same way Montyon contends that the sacrifice of a part guarantees the whole, and that taxation is simply an investment which bears interest. But Montyon, like Montesquieu, defends progressive taxation on other grounds, which will be discussed hereafter.<sup>16</sup>

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qu'il rend au Public; comme aussi la dépense du Public n'est autre chose que la tutelle des Particuliers, ou la sûreté de l'équivalent qui doit leur revenir." Mirabeau, *Theorie de l'Impôt*, 1761, p. 336. He maintains hence "que l'imposition soit dans une proportion connue et convenable avec les revenus," *ibid.*, p. 374, and explains this further by showing that the tax must be levied on land and also "proportionnellement aux logemens ou loyers d'habitation," *ibid.*, p. 392. Mirabeau's statement, *ibid.*, p. 39, "que le riche doit contribuer beaucoup plus que le pauvre et coûter beaucoup moins, proportion gardée," cannot be taken as a demand for progressive taxation. Garnier, *Traité des Finances*, p. 355, makes a mistake here in calling Mirabeau an advocate of progression. The same error is committed by de Retz de Serviez, *De l'Impôt Progressif en France*, p. 40.

<sup>14</sup>"Les revenus de l'Etat sont une portion que chaque citoyen donne de son bien pour avoir la sûreté de l'autre, ou pour en jouir agréablement." Montesquieu, *L'Esprit des Lois*, 1748, livre 13, chap. I.

<sup>15</sup>"L'impôt peut être défini la sacrifice d'une partie de la propriété pour la défense et la conservation de l'autre." Raynal, *Histoire Philosophique et Politique des Etablissements et du Commerce des Européens dans les deux Indes*, 1780, vol. iv, book 19, chap. x, p. 636.

<sup>16</sup>"Si l'impôt distrait une portion de la propriété privée pour la



The chief German writers on public finance prior to Adam Smith held that the doctrine of proportion was a logical conclusion from the principle of benefits. Thus Justi maintains that since the man with more property enjoys more protection, everybody must pay taxes in proportion to his property. Equality of taxation arises from the fact that all citizens enjoy equal protection, security and justice. The equality, however, must follow, not the person, but the property. For the richer a man is, the greater the protection and security that he enjoys.<sup>17</sup>

Adam Smith has been claimed as a defender both of the benefit and of the faculty theory, both of the proportional and of the progressive doctrine. It is true that he is not always consistent, and that isolated passages may be taken to prove either view. A careful consideration of the general trend of his ideas, however, must convince us that Adam Smith held in the main to the benefit theory and to proportional taxation. These are virtually contained in his famous principle that: "The subjects of every state ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities, that is in proportion to the revenue

transférer à la propriété publique, le sacrifice de cette portion paie la garantie de la totalité. Dans la réalité le contribuable, en acquittant le tribut qui lui est imposé, ne fait qu'un placement d'argent dont il tire un fort intérêt." Montyon, *Quelle Influence ont les diverses Espèces d'Impôts sur la Moralité, l'Activité et l'Industrie des Peuples*, 1808. In *Mélanges d'Economie Politique* (ed. Guillaumin, 1848), ii, p. 375.

<sup>17</sup> "Alle Unterthanen haben an dem Schutz des Staats und andern . . . Wohlthaten gleichen Anteil. Wenn aber diese gerechte Gleichheit beobachtet werden soll, so muss vornehmlich die Proportion des Vermögens zum Grunde gelegt werden, weil sich der Schutz des Staats hauptsächlich in Ansehung des Vermögens zeigt, und weil Derjenige, der ein grosses Vermögen besitzt, ohne Zweifel mehr Schutz geniesst als Derjenige, der ein geringes oder gar kein Vermögen hat." Justi, *Staatswirthschaft*, 1755, Zweiter Theil, § 228, 2nd ed. (1758), p. 312.

which they respectively enjoy under the protection of the state."<sup>18</sup> That is to say, although he uses the word "ability" he immediately goes on to explain that taxation should be proportioned to the benefits received in the way of income. Although he says in another part of the same chapter: "It is not very unreasonable that the rich should contribute to the public expense not only in proportion to their revenue, but something more than in proportion,"<sup>19</sup> yet this sentence did not lead him to demand progressive taxation at all, and must be regarded as a mere incidental remark. Adam Smith upheld proportional taxation because, as he said, "the expense of government to the individuals of a great nation is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate."<sup>20</sup> This is essentially the individualistic or the give-and-take theory.

Most of the English writers until the middle of the century show the influence of Adam Smith in this respect. The Bishop of Llandaff is interesting as being the first Englishman to advance the insurance-premium theory of taxation, later associated with the name of Thiers. He states that the true principle of taxation "seems to me to be this, that every man should pay for the protection of his property by the state in exact proportion to the value of the property protected; just as merchants who risk their goods on board a vessel pay an insurance in proportion to the value of the goods insured."<sup>21</sup> Many years later Mc-

<sup>18</sup> Adam Smith, *Wealth of Nations*, book v, chap. ii; Rogers ed. ii, p. 414.

<sup>19</sup> *Ibid.*, ii, p. 435. He is speaking of a proportional tax on house-rents, which he thinks falls heaviest on the rich, but which is nevertheless quite justifiable for the reason indicated.

<sup>20</sup> *Ibid.*, ii, p. 415.

<sup>21</sup> Quoted in Frend, *The Principles of Taxation, or Contribution according to Means*, 1804, p. 16.

Culloch based his demand of proportional taxation on this same insurance-premium theory. "The state has been ingeniously compared by M. Thiers to a mutual insurance company where the payments by the members are exactly proportioned to the sums that they have insured, or to their interests in the company. And so it should be with the subjects of government. . . . It follows that every one should contribute to its support according to his stake in the society or his means. This is a plain intelligible rule, that should neither be forgotten nor overlooked."<sup>22</sup> McCulloch goes on to explain his meaning by saying that "no tax on incomes can be a just tax unless it leaves individuals in the same relative condition in which it found them." This, however, he thinks, involves proportional taxation. "Even if taxes on incomes were otherwise the most unexceptionable, the adoption of the principle of graduation would make them among the very worst that could be devised. The moment you abandon, in the framing of such taxes, the cardinal principle of exacting from all individuals the same proportion of their income or their property, you are at sea without rudder or compass, and there is no amount of injustice and folly you may not commit."<sup>23</sup> This insistence upon "injustice" is remarkable in the case of a writer who main-

<sup>22</sup> J. R. McCulloch, *A Treatise on the Principles and Practical Influence of Taxation, or the Funding System*, 1845, 3rd ed. (1863), p. 17.

<sup>23</sup> *Ibid.*, pp. 143-145. Similar ideas were expressed by McCulloch in very much the same words in an anonymous article in the *Edinburgh Review*, vol. 57 (1833), p. 143. President Walker, who quotes the article in his *Political Economy*, § 590, does not seem to be aware that the article is written by McCulloch. But neither the idea nor the phrasing is original with McCulloch. It is found almost word for word in Frend, *The Principle of Taxation* (1804), 40; as well as in some of the German writers, like Schlözer, in 1807. These will be mentioned below.

tains, in another part of the same work, that a statesman in levying taxes need not concern himself about the equities at all, but look only to the expediency and convenience of collection. This leave-them-as-you-find-them theory, as it might be called, does not, however, as we shall see later, necessarily lead to proportional taxation.

Senior puts the give-and-take theory in somewhat less exceptionable form, when he says: "We consider all that is received by the officers of government as given in exchange for services affording protection, more or less complete, against foreign or domestic violence or fraud. It is true that this exchange is conducted on peculiar principles. . . . No individual is permitted to refuse his share of the general contribution, though he should disclaim his share in the general protection. But the transaction, though often involuntary and still more often inequitable, is still an exchange and on the whole a beneficial exchange. The worst and most inefficient government affords its subjects a cheaper and more effectual protection than they could obtain by their individual and unaided exertions."<sup>24</sup>

By all means the strongest plea in English literature for proportional taxation as the outcome of the give-and-take theory is to be found in the writings of Sargant. Sargant, however, is the chief advocate of the cost-of-service theory as over against the value-of-service theory. He pictures the gradual development of a community from barbarism to civilization. "In all these cases there is one simple principle by which the contribution of each colonist is determined; every one pays in proportion to the expense incurred by government in protecting him. Just as he pays the storekeeper for the goods he buys, the lawyer for the advice he asks, the ploughman for the labor he

<sup>24</sup> Senior, *Political Economy*, 1836, 6th ed. (1872), p. 87.



hires, so he pays the government for the protection he receives; and the amount he contributes is not regulated by the colonist's ability to pay, but by the cost incurred by government on his behalf. This principle has been overlooked or slighted, in most, if not in all, the reasonings I have seen. It has been stated, indeed, that a man pays for the protection he receives; but it has not been stated that, in the first instance, the amount he pays is only a reimbursement of the expense incurred by Government on his behalf."<sup>25</sup>

Sargent is mistaken, as we shall see, in his belief that the theory had not been advanced previously. It is noteworthy, however, that he declares this principle the only avenue of escape from progressive taxation.

He puts his idea in the following words: "If this principle, of proportion between government cost and individual taxation, be not the foundation of just taxation, what is the foundation? And what other defense have we against graduation? . . . The very name graduation stinks in the nostrils of wealthy men. Why is graduation an indefensible confiscation? Why is graduation an indefensible part of socialism? Because, I reply, graduation is unjust; because graduation is a filching from rich men a payment for that which they do not receive; because it is a demand on rich men to pay a shilling for the loaf which men of moderate means get for nine-pence!"<sup>26</sup> The principle of justice is the rule that each man should pay for government protection just as he pays for the commodities he buys. "Every one ought to reimburse to the government that part of the necessary expen-

<sup>25</sup> William Lucas Sargent, "An Undiscriminating Income Tax Reconsidered," in *Journal of the Statistical Society*, vol. 25 (1862), p. 341.

<sup>26</sup> *Ibid.*, p. 352.

diture which is incurred on his behalf."<sup>27</sup> This to Sargent means a proportional income tax.

The French writers of the nineteenth century, with only a few exceptions and until recently, have been strong advocates of the benefit theory. Already at the outbreak of the French Revolution, Mirabeau the younger drew up a report which was spread broadcast by the constituent assembly, in which he maintained that "taxation is a kind of compensation, the price of the benefits which society procures for its members. A tax is simply an advance made to secure the protection of the social order, and therefore a condition imposed on every one by all."<sup>28</sup> Later on, indeed, the revolutionists demanded progression, but that was only after another basis had been found for taxation.

Coming to the middle of the century, we find the great apostle of the protection or insurance theory in Thiers. Thiers maintains that every one must pay proportionally to his earnings or his fortune for the "most natural reason that the cost of protection must be shared according to the amount of property protected."<sup>29</sup> Progressive taxation he thinks is absurd. If you buy one hundred pounds

<sup>27</sup> *Ibid.*, p. 376. It is true that Sargent afterwards recommends the exemption of the minimum of subsistence; but this he says is not justice, but mercy. It is clearly illogical from his "cost-of-service" standpoint.

<sup>28</sup> "L'impôt est une dette commune des citoyens, une espèce de dédommagement et le prix des avantages que la société leur procure. . . . L'impôt ne sera plus qu'une avance pour obtenir la protection de l'ordre social, une condition imposée à chacun pour tous." Assemblée Nationale, 1789, *Address aux Français sur la Contribution Patriotique*, written by Mirabeau.

<sup>29</sup> "Chacun doit contribuer aux dépenses publiques en proportion nullement à ce qu'il gagne ou à ce qu'il possède, par la raison fort naturelle que l'on doit concourir aux frais de la protection sociale suivant la quantité de biens protégés." Thiers, *De la Propriété* (1848), p. 352.

of some commodity from a merchant you pay for a hundred; if you buy one thousand pounds, you pay for a thousand. "Would you find it natural to be charged more per pound if you buy 1,000 than if you buy 100? On the contrary, the merchant or the company will generally let you have the larger quantity at a cheaper rate, because of the greater profits. . . . But what is society if not a stock company, in which everyone has more or less shares?"<sup>80</sup> He concludes that taxes must be "proportional to the expenses incurred by the state in your behalf, and to the benefits you have received, just as in an insurance company the premium is proportioned to the amount insured."<sup>81</sup> Anything else would be "revolting arbitrariness."<sup>82</sup> Thiers, we see, combines the cost-of-service with the value-of-service theory, not seeing that they are really inconsistent. In much the same way Du Puynode defines a tax as a "part set aside by everybody for the common purse in order to guarantee the peaceful enjoyment of his property and the respect of his person."<sup>83</sup> Hence taxes must be proportional. "Do two hundred francs of income require a greater guarantee, a more difficult protection when they belong to one man, than when they are divided between two or three? Evi-

<sup>80</sup> "Qu'est-ce donc que la société, sinon une compagnie, où chacun a plus moins d'actions, et où il est juste que chacun paye en raison du nombre de celles qu'il possède." Thiers, *op. cit.*, p. 355.

<sup>81</sup> "Ainsi l'impôt proportionnel c'est-à-dire l'impôt proportionné à la part des frais que la société est supposée avoir fait pour vous, au service que vous en avez reçu, comme en matière d'assurances la prime est proportionnée à la somme assurée, rien de mieux; j'aperçois là un principe." *Ibid.*, p. 363.

<sup>82</sup> "Un arbitraire révoltant." *Op. cit.*, p. 364. "La proportionnalité est un principe, la progression n'est qu'un odieux arbitraire." *Ibid.*, p. 362.

<sup>83</sup> "Aussi l'impôt peut-il encore se définir la part que chacun remet à la caisse commune, pour s'assurer la paisible jouissance de ses biens et le respect de sa personne." Du Puynode, *De la Monnaie, du Crédit, et de l'Impôt*, 1853, ii, p. 70.

dently not. Proportionality is the rule of all insurance policies."<sup>84</sup> Emile de Girardin is a strong believer in the insurance theory. "Every tax which is not the guarantee of a risk, the price paid for a commodity, or the equivalent of a service, is a tax which ought to be abandoned."<sup>85</sup> In another place he defines taxation as the "premium of insurance paid by those who possess in order to insure themselves against all risks of a nature likely to trouble them in their possessions or enjoyments."<sup>86</sup> Girardin thus concludes that the *impôt inique*, or unjust tax, as it exists to-day must be replaced by the *impôt unique*, or single tax, and this single tax is nothing but a "voluntary insurance premium, proportional to the value of the property insured."<sup>87</sup>

So also Baudrillart, in a widely read manual, maintains that the remuneration must be proportioned to the service, and that it is quite right to compare taxation to a fire insurance premium, the "natural and just principle of

<sup>84</sup> "Deux cents francs de revenu, exigent-ils une garantie plus forte, une garde plus difficile quand un seul les perçoit que lorsqu'ils reviennent à deux, et à deux ou à trois? Evidemment non. La proportionnalité est la règle de toutes les polices d'assurances." Du Puynode, *op. cit.*, ii, p. 92.

<sup>85</sup> "Tout impôt qui n'est pas la garantie d'un risque, le prix d'une marchandise ou l'équivalent d'un service est un impôt qui doit être abandonné." Emile de Girardin, *L'Impôt*, 1852, p. 156. This whole discussion was first written during the revolution of 1848 and was printed in the work entitled *Les 1852. XIII Le Socialisme et l'Impôt*, 1849. Cf. the passage quoted on p. 120 of that work. Cf. also the reprint of the same author's views in Girardin, *L'Impôt Inique et l'Impôt Unique*, 1872, p. 89.

<sup>86</sup> "Tel que nous le comprenons, l'impôt doit être la prime d'assurance, payée par ceux qui possèdent, pour s'assurer contre tous les risques de nature à les troubler dans leur possession ou leur jouissance." *Ibid.*, p. 249.

<sup>87</sup> "L'impôt forcé est transformé en prime volontaire d'assurance proportionnelle à la valeur des objets assurés." It is voluntary because "point de capital, point d'impôt." *Ibid.*, pp. 300-301.

which is to guarantee risks in proportion to value. Proportional, not progressive, taxation, is, therefore, the true ideal."<sup>38</sup> Other writers also harp on the same key. For instance, Chauvet is the first to develop what he calls the social-dividend theory. He holds, that society owes to every individual a dividend (in the shape of benefits) proportional to what he pays. "The taxpayers are simply shareholders to each of whom the social body must distribute proportionate profits."<sup>39</sup> Ginoulhiac advances the same idea when he asserts that "taxes are not a burden, but a portion of produce set aside for the state in virtue of, and as a return for, its coöperation."<sup>40</sup>

Proudhon indeed strongly opposes the insurance theory—what he calls *l'impôt assurance*—but he substantially holds to the give-and-take doctrine in defining a tax as the "portion to be paid by each citizen for the cost of public services. Taxation is an exchange."<sup>41</sup> Proudhon

<sup>38</sup> "Le principe, comme dans une compagnie d'assurance contre l'incendie, le principe naturel et juste est de payer le risque en proportion de la valeur garantie, et quelle que soit la nature de cette valeur. . . . L'équité véritable, c'est le paiement proportionnel au risque couru, à la quantité des biens garantis. . . . L'impôt doit donc être proportionnel; tel est en matière de taxation le véritable idéal." H. Baudrillart, *Manuel d'Economie Politique*, 1857, i, 5th ed. (1883), pp. 515-517. Cf. his *Economie Politique Populaire*, 2nd ed. (1876), p. 318.

<sup>39</sup> "La contribution est une mise que fait chaque individu dans l'espérance légitime de retirer de son emploi une utilité proportionnelle, d'où il suit que la société doit en avantages et en jouissances, à chaque contribuable, un *dividende* proportionnel à sa contribution. Les contribuables sont donc comme des actionnaires de toutes les opérations publiques, à chacun desquels le corps social devrait distribuer une somme d'avantages proportionnels à sa mise." Quoted in Girardin, *L'Impôt*, 1852, p. 155.

<sup>40</sup> "L'impôt n'est pas une charge, c'est une part des produits accordée à l'état, en vertu de sa coöperation." Kinoulhiac, "*L'Economie Politique du Peuple*, p. 321.

<sup>41</sup> "L'impôt est la quote-part à payer par chaque citoyen pour la

hon has a great many hard words for progressive taxation. He calls it "a pure hypocrisy, a cowardly and shameful transaction, a delusion, a suicide, a confiscation, a mystification, a fiscal plaything, the essence of arbitrariness without check or limit, the most stupid and unworthy of cheats," etc.<sup>42</sup> His arguments, however, are all based on the assumption that taxes are inevitably shifted to the consumers, and that progressivity is hence a delusion. Although he states in another part that the idea of proportional taxation conforms to the principle of give and take,<sup>43</sup> the opponents of progression, who often quote him, must remember that Proudhon afterwards declares proportional taxation equally bad, because proportional taxation is really regressive taxation or "progressive taxation in the sense of misery."<sup>44</sup> This constitutes one of his famous "economic contradictions," which leads him to the conclusion that taxation in society as it is constituted to-day can never be just. Proudhon, however, cannot be claimed as an authority by anybody, because his opinions so often shifted. Thus, in his celebrated speech of 1848, in the debate in the French assembly, he upholds

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dépense des services publics. . . . L'impôt est un échange." Proudhon, *Théorie de l'Impôt*, 1861, p. 39; new ed. of 1868, p. 40.

<sup>42</sup> Proudhon, *Système des Contradictions Économiques*, 1845, chap. vii; *Théorie de l'Impôt*, chap. iv, § 117 (pp. 9, 185, etc). He concludes, "Quand donc cessera-t-on d'entretenir le public de ce bilboquet de la progression, qui n'a été imaginé que pour donner un vernis de philanthropie à l'impôt et ménager la pudeur des riches." *Contradictions Économiques*, p. 240.

<sup>43</sup> "De là l'idée que l'impôt, devant être payé par chacun, doit être proportionnel à sa fortune; idée conforme au principe de l'échange." *Théorie de l'Impôt*, pp. 113, 114.

<sup>44</sup> "L'impôt, direct ou indirect, proportionnel dans la forme, se résout fatallement en une capitulation générale laquelle n'ayant, ni ne pouvant avoir, égard aux différences de la fortune, constitue un véritable impôt progressif dans le sens de la misère." *Ibid.*, p. 171.



progressive taxation in general,<sup>45</sup> and even in his later book on taxation, he defends the progressive tax on collateral inheritances, on buildings, on stamps, etc.<sup>46</sup> The important point for us is, however, that in so far as Proudhon upholds proportional taxation at all, it is as a result of the benefit theory.

Even among some of the more recent French writers the defense of proportional taxation resting on the benefit theory, is still common. Thus Dupont and Batbie claim that since the government protects both persons and property, the tax must logically be composed of two parts—a poll tax equal for all, and a second tax proportional to property or income.<sup>47</sup> Michaud and Le Hardy de Beaulieu advocate the proportional tax or net income, because this is the best test of the services received from the state in the shape of protection.<sup>48</sup>

The most noteworthy of recent French writers is Leroy-Beaulieu. Leroy-Beaulieu is a stalwart opponent of progressive taxation. It is true that, in discussing the general nature of taxation, he shows the complete fallacy of the protection or insurance theory of taxation. When

<sup>45</sup> "Discours prononcé à l' assemblée nationale le 31 Juillet, 1848. In his *Oeuvres*, vii, esp. p. 275.

<sup>46</sup> "Théorie de l'Impôt, pp. 272-273.

<sup>47</sup> "Tous les citoyens, riches ou pauvres, doivent un impôt à l'Etat qui garantit la sûreté et la liberté de chacun; tous ceux qui possèdent doivent un impôt corrélatif à l'importance vraie ou supposée de leurs biens, comme rémunération de l'action protectrice exercée par l'Etat." Etienne Dupont, *L'Impôt*, 1872, p. 6. "Que l'on soit riche ou pauvre, on reçoit de la société une utilité égale sous le rapport de la protection accordée à la personne; l'inégalité des fortunes fait, au contraire, qu' au point de vue de la protection des biens les dépenses publiques profitent inégalement aux contribuables." Batbie, *Nouveau Cours d'Economie Politique*, 1866, ii, p. 225.

<sup>48</sup> "L'impôt proportionnel sur le revenu net est correspondant aux services reçus de l'Etat sous forme de protection." Michaud, *L'Impôt*, 1885, p. 196. Cf. Le Hardy de Beaulieu, *Traité Elementaire d'Economie Politique*, 2nd ed. (1866), p. 295.

he treats of progressive taxation, however, he discards the equality-of-service, or the faculty theory (because he thinks it logically leads to progressivity), and maintains that it is the function of the state not to impose equality of sacrifice, but to recover from each citizen "the just price of service rendered and their just part in the interest and payment of the national debt."<sup>49</sup> He repeats the old question which we have encountered so frequently: "What should we say of a baker or grocer, or any merchant who would demand for the same commodities a price varying with the wealth of the purchaser?"<sup>50</sup> Thus Leroy-Beaulieu reverts to the benefit theory and makes it the basis of his objection to progressive taxation. A little later he upholds the progressive rate in the rentals tax, and the exemption of the minimum of subsistence from the income tax, but in both cases the progression is to him only apparent, not real. The progressive rental is nothing more than a presumption of proportional income; and the exemption of the lower income or the nominally regressive tax is simply a compensation for the regressive indirect taxes. So that proportional taxation is the ideal. The point to be noticed, however, is that the basis of proportional taxation with Leroy-Beaulieu is still the benefit theory, the same theory which he so hotly opposes in a preceding chapter. More recently still, Bonnet, who also starts out with objecting to the give-and-take theory of taxation, is equally illogical in making this very theory his main defense of proportional taxation.<sup>51</sup> Beau-

<sup>49</sup> "Il ne s'agit nullement pour l'Etat d'infliger des sacrifices plus ou moins égaux aux individus, mais bien de recouvrir de chacun d'eux le juste prix des services rendues et leur juste part dans les intérêts et l'amortissement de la dette nationale." Leroy-Beaulieu, *Traité des Finances*, 5th ed. (1892), i, p. 146.

<sup>50</sup> "Ne dirait-on pas que ce système est absurde?"

<sup>51</sup> "Un abaissement de prix corrépondant à la diminution des frais qu'on procure, telle est la loi générale du commerce; elle est

regard also objects to progressive taxation on the ground that it does not proportion the burden to the benefits received.<sup>52</sup>

The German writers on public finance during this century—and their name is legion—were for a long time under the spell of Adam Smith and the early French authors, and were in consequence firm supporters of the benefit theory. In the writings of the chief publicists we find all shades of the doctrine expressed—the protection theory, the insurance theory, the cost-of-service theory, and the value-of-service theory, leading generally to the demand for proportional taxation.

One of the earliest writers, Schröder, shares with the Englishman already quoted the doubtful honor (generally ascribed to Thiers), of being the first to advance the insurance-premium theory.<sup>53</sup> So Harl, the naive enthusiast for the general property tax, discusses the income tax as well and demands proportional taxation as self-evident. "Progressive taxation is not only against all justice, but against the nature of things."<sup>54</sup> Sartorius makes the objection which afterwards became so common,

équitable et favorise le progrès économique. Pourquoi ne l'applique-t-on pas en ce qui concerne l'Etat. . . . Mais si le gouvernement ne crée pas une échelle d'impôt décroissante en raison des sommes qu'on a à payer, qu'on n'aile pas au moins lui demander d'en établir une progressive; ce serait le renversement de toutes les lois." Victor Bonnet, *La Question des Impôts*, 1879, p. 44.

<sup>52</sup> "Il est injuste car il ne proportionne pas la charge au bénéfice obtenu." P. Beauregard, *Eléments d'Economie Politique*, 313.

<sup>53</sup> "In dieser Rücksicht könnte man die Steuern mit den unter Kaufleuten üblichen Assecuranz-prämien vergleichen." Christian von Schröder, *Anfangsgründe der Staatswirtschaft*, ii (1870), p. 157. See above p. 96.

<sup>54</sup> "Es ist nicht nur gegen alle Gerechtigkeit, sondern selbst gegen die Natur der Sache, wenn . . . eine Steigerung der Procente angenommen wird." Harl, *Vollständiges theoretisch-praktisches Handbuch der gesammten Steuer-Regulirungen oder der . . . Steuerwissenschaft*, ii (1816), § 73.

that progressive taxation must finally swallow up the total income of the rich.<sup>55</sup> Kröncke says that taxes can be levied only in proportion to the security afforded by the state to property or income, and thinks that this means a proportional tax on all property or income.<sup>56</sup> Krehl, Kessler and Kremer take substantially the same position.<sup>57</sup> Later on Rotteck also maintains that the ideal principle of taxation is to apportion taxes according to each man's share in the benefits of the state, and that the nearest practical approach to this is a tax proportional to property or income.<sup>58</sup>

Even during the third quarter of this century the give-and-take theory has been upheld in all its boldness by the German writers of the so-called Manchester school. Thus Faucher calls the give-and-take doctrine the principle of liberty as against the "communistic" faculty theory, and demands the pure property tax as the real premium of

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<sup>55</sup> "Wollte man ein solches Steigen der Procente. . . . stattfinden lassen, so würde nothwendig erfolgen, dass der welcher das grösste Einkommen besäsze, zuletzt nichts behielte." Sartorius, *Ueber die gleiche Besteuerung . . . des Königreiches Hannover*, 1815, p. 288.

<sup>56</sup> "Die Steuern können also nur im Verhältnisse der durch den Staat erlangten Sicherheit des Vermögens oder Einkommens rechtlich vertheilt werden." . . . "Nicht bloss die Ueberschüsse des Einkommens, oder das relative Einkommen und relative Vermögen, sondern das positive Einkommen und Vermögen muss als Massstab zur Vertheilung der Staatsbedürfnisse angenommen werden." E. Kröncke, *Ueber die Grundsätze einer gerechten Besteuerung*, 1819, pp. 9, 11. Cf. similar utterances in his *Ausführliche Anleitung zur Regulirung der Steuern*, 1810, § 15, p. 21.

<sup>57</sup> Krehl, *Skizze eines Steuersystems*, 1814, § 14, and *Steuersystem*, 1816, § 71; Kessler, *Die Abgabekunde*, 1818, *passim*; Kremer, *Darstellung des Steuerwesens*, 1825, § 82.

<sup>58</sup> "Die Beiträge müssen nach Verhältnisse der Theilnahme an den Vortheilen des gesellschaftlichen Verbandes bestimmt werden." Rotteck, *Lehrbuch der ökonomischen Politik*, vol. iv of his *Lehrbuch des Vernunftrechtes und der Staatswissenschaften*, 1835, p. 287.

insurance.<sup>59</sup> So Braun terms the proportional income tax the really just insurance premium for person and property;<sup>60</sup> and Graffenried says that every tax is sheer confiscation unless the owner receives a directly proportional return for it.<sup>61</sup>

One of the ablest of the more recent German writers, von Hock, develops a peculiar theory, very like that afterwards elaborated by Dupont and Batbie in France. According to Hock all taxes are rewards paid for state services. The benefits conferred by state action are in part incalculable. Certain general principles, however, may be laid down. In the first place whoever lives in the state enjoys the protection of his person and takes part in the welfare of the commonwealth. These benefits are the same for every one. Secondly, all people who possess or receive anything within the state enjoy the protection which the state affords to their property or income. These benefits are best measured by the extent of the property or income.<sup>62</sup> Thirdly, every one who calls upon the state for particular services ought to pay for the cost of these services. Hence concludes von Hock, there

<sup>59</sup> Julius Faucher, *Staats- und Communal-Budgets*, 1863, ii, p. 204.

<sup>60</sup> "Die Blut-und Einkommensteuer (ist) die Versicherungs-prämie, welche das Volk für die generelle Lebens- und Eigenthumsassecranz der Staatsgewalt, bei welcher es versichert ist, entrichtet." Braun, *Staats- und Gemeindesteuern*, ii, 1866, p. 9.

<sup>61</sup> "Jeder vom Staaate bezogene Einkommenstheil ist seinen Eigenthümern mit Unrecht entzogen, wenn ihm nicht Entsprechendes dafür geleistet wird." v. Graffenried, *Ueber die Einkommensteuer*, 1855, p. 58.

<sup>62</sup> "Der Werth des staatlichen Schutzes für seinen Besitz oder Erwerb und die Vortheile, welche ein wohl geordneter und verwalteter Staat auf die Steigerung aller Werthe ausübt," is to be measured by the "Nutzen den sie dem Besitzer oder Erwerber gewähren. Dieser Nutzen hängt von dem Werthe der besessenen oder erworbenen Sache und dieser Werth von der Grösse des Einkommens oder des von dem Eigner diesem Einkommen vorgezogenen Genusses ab." v. Hock, *Die öffentlichen Abgaben und Schulden*, 1863, p. 16.

should be three fundamental taxes—a personal tax equal for all, a proportional property or income tax, and a series of special payments for special services. The income tax, however, must be assessed only on the surplus over the minimum of existence. Von Hock maintains that this is not the same thing as taxing only the clear income, for clear income might be so defined as to cause a tax to be simply a premium on extravagance. He desires an exemption of a fixed sum, and proportional taxation on the surplus.<sup>63</sup> Von Hock therefore combines the cost-of-service and value-of-service theories, and is more logical than Thiers, in recognizing that they do not lead to the same results.

Other countries may be passed over with a bare mention, as the advocates of the benefit theory here simply follow their French or German prototypes. In Italy, already in the eighteenth century, Campagnoni wrote a special work on progressive taxation, and maintained that the system was essentially unjust because taxation is simply a payment for protection, and because no one could prove that protection increased faster than property.<sup>64</sup>

During the present century a number of writers for a long time took the same ground, the most noted of the recent authors being Boccardo, who simply follows Leroy-Beaulieu. Boccardo, however, displays a remarkable ignorance of recent literature in saying that "scientifically

<sup>63</sup> "Wollte man aber stets nur das wirklich freie Einkommen d. i. bloss den Ueberschuss besteuern der nach Befriedigung aller Gelüste und Launen des Eigners als Ersparniss am Schluss des Jahres übrig bleibt, so besteuert man eigentlich nichts als die Sparsamkeit, gewährt der Verschwendug eine Prämie und verliert, da selten ein solches Ersparniss handgreiflich nachgewiesen werden kann, das ganze Steuer-objekt aus den Händen." *Ibid.*, p. 76.

<sup>64</sup> G. Compagnoni, *La Tassa progressiva*, 1797, 5, 8. Cf. also Ricca-Salerno, *Storia della Dottrine Finanziarie in Italia*, 1881, p. 171; 2nd ed. (1896), p. 389.

the question is decided, and decided against progression."<sup>65</sup> In Spain, also, Pastor, the chief of the earlier writers on finance, takes the position that taxes must be proportioned to the benefits that each citizen derives.<sup>66</sup>

<sup>65</sup> "Scientificamente la questione della base dell' imposta è decisa ed è decisa contra la progressività. Giustizia in materia di tributi non è che sinonimo di proporzionalità, fuori della quale non è che l'arbitrio, vale a dire precisamente l'opposto della giustizia." Boccardo, *Principii della Scienza, e dell' Arte delle Finanze*, 1884, p. xxvii.

<sup>66</sup> Pastor, *La Ciencia de la Contribucion*, 1856, vol. i, *passim*.

## HISTORICAL APPENDIX II.

### THE BENEFIT THEORY LEADS TO NON-PROPORTIONAL TAXATION.

In the preceding appendix we have passed in review most of the advocates of the give-and-take theory of taxation, and have learned that they drew from this theory the conclusion of proportional taxation. There are, however, many writers who stoutly uphold the benefit theory, but who, on the contrary, do not confess that they need on that account to defend proportional taxation. The writers in this class may really be divided into several categories. But they may be all classed together, so far as they profess to see the weakness of strictly proportional taxation as an outcome of the benefit theory. Some simply object to proportional taxation without laying down any positive programme; some modify the proportional theory by positing the doctrine of exemption of the minimum of subsistence; some go so far as to demand progressive taxation outright.

One of the most remarkable advocates of the give-and-take theory, who at the same time opposes the proportional tax on property or income, is Gandillot. Although he rejects the proportional property or income tax, however, he equally rejects the progressive tax. Gandillot bases his idea of taxation not on the advantages received by the individual, but on the cost of service to the state. He objects to the theory of advantages, because he claims that it is impossible to measure the advantages to each. He professes to find a safer guide in the cost-of-service theory. Taxes must be the exact return for particular services. These services, however, are proportional neither to property nor to income. They are

not proportional to property in the first place because many public services do not interest all the property owners at all; secondly, because even if they affect all owners they do not affect them in any fixed proportion to their possessions, since pieces of property of the same value may often require unequal expenses for protection.<sup>1</sup> And taxes cannot be proportional to income, for those who purchase some gratification or protection or any object at all must pay for it in proportion to the value of the service, not in proportion to their income.<sup>2</sup> An innkeeper regulates his charges not in accordance with the personal resources of his guests, but according to the value of the food, lodging and accommodations furnished. The state is like the innkeeper.<sup>3</sup> Taxes proportional to property or income are hence unjust. They tend to throw on some the debts of others.<sup>4</sup>

It is true indeed that in Gandillot's opinion progressive taxes are not much better. It is not so much the proportion or progression which is at fault, as the basing of the tax on property, or income, or faculty. The only logical method, concludes Gandillot, is to develop a system of taxation where each element shall exactly represent the

<sup>1</sup> "De toutes les règles en matières fiscales, la plus juste est celle qui exige que l'impôt soit toujours l'exakte rémunération d'un travail ou d'un objet fourni." Gandillot, *Principes de la Science des Finances* (n. d., about 1874), i, p. 218. "L'impôt n'est que le prix de service de protection, de production ou d'amélioration, analogue aux travaux divers dont les frais déterminent la valeur réelle des choses." *Ibid.*, p. 225. "Chaque membre de la nation ne doit payer que ce qu'il reçoit." *Ibid.*, p. 142.

<sup>2</sup> *Ibid.*, p. 146.

<sup>3</sup> "L'impôt, en effet, n'est-il le prix d'un bénéfice obtenu de l'Etat; et ceux qui achètent une jouissance, une protection, un bon office, un objet quelconque, ne doivent-ils point payer cet objet au prorata de leur lots respectifs, sans égard à leurs revenus?" *Ibid.*, p. 171.

<sup>4</sup> "L'impôt proportionnel aux fortunes, et l'impôt proportionnel aux revenus, tous deux, par une manifeste injustice, tendent également à rejeter sur les uns la dette des autres" *Ibid.*, p. 172.

cost of the particular service to the individual. He does not show us, however, how this is to be done. The point to which we have desired to call attention is the fact that one of the strongest advocates of the give-and-take theory holds that it cannot logically lead to proportional taxation. It is here that we see the difference between Sargent in England and Gandillot in France; and of the two, the latter is the more logical.

A far larger number of writers object to strictly proportional taxation, sometimes without being aware of it, when they demand the exemption of a minimum of subsistence. For if a certain amount of property or of income is entirely exempted the tax is assuredly not proportional on the whole property or income. It may indeed be proportional on the surplus above a certain amount. But it is then virtually regressive taxation on the whole.

The founder of the minimum-of-subsistence theory has usually been said to be Jeremy Bentham, although his words so far as we have noted have never been quoted. Bentham was a great advocate of what he called the do-nothing or be-quiet theory of politics, and held logically to the give-and-take theory of taxation. He maintained, however, that it is wrong, as it is practically impossible to tax persons on what they need for necessities of life. Never tax a person when he has not the wherewithal to pay. "The individual being unable to pay the tax on account of his indigence, finds himself subject to grave evils. Instead of the inconveniences of the tax, the sufferings of privation are experienced; for this reason a capitation tax is bad; because a man has a head, it does not follow that he has anything else." Bentham objects to taxes on the necessities of life, because they may be followed by physical privation, disease, and even death itself; and no one perceive the cause: All these he calls

"misseated" taxes, because they spare the rich to the prejudice of the poor.<sup>5</sup>

Several decades before Bentham, however, the same departure from proportional taxation had been advocated in much more precise language by French, English and German economists. Thus, for instance, Forbonnais took a very strong position. "The object of taxation," says Forbonnais, "is the preservation of property; and property is *nil* if it does not afford subsistence. Hence, the physical subsistence of every family is a privileged part of all income. Only the surplus above this minimum can be assigned to the public for the support of government."<sup>6</sup>

The exemption of the minimum of subsistence, or what they called the "nécessaire physique" was also proclaimed by Rousseau and by many of the writers at the time of the French Revolution.<sup>7</sup> Robespierre was at first a partisan of this doctrine;<sup>8</sup> but somewhat later he abandoned the idea and came out as the great defender of the principle of universality of taxation, declaring that any favor of this kind was an insult to the people.<sup>9</sup> He de-

<sup>5</sup> Bentham, *Principles of the Civil Code*, chap. xv. In *Collected Works*, by Bowring, 1843, i, p. 319.

<sup>6</sup> "Le service public a pour objet la conservation des propriétés; et la propriété est nulle si elle ne donne la subsistance; d'où il s'ensuit que la subsistance physique de chaque famille est une portion privilégiée sur le revenu avant le service public." . . . "L'excédant de cette subsistance physique est donc la seule portion du revenu sur laquelle le service public puisse être assigné. Ainsi le revenu national, soumis aux combinaisons de finance, n'est que le montant du superflu de chaque citoyen." Forbonnais, *Principes Économiques*, 1758, § 5; in Guillaumin's edition of *Mélanges d'Economie Politique*, i, 1847, p. 204.

<sup>7</sup> See below.

<sup>8</sup> Gomel, *Hist. Financière de l'Assemblée Constituante*, i, p. 164.

<sup>9</sup> He said that he was now "éclairé par le bon sens du peuple qui sent que l'espèce de faveur qu'on lui présente n'est qu'un injure.

manded that such a humiliation be not inflicted on the "partie la plus pure de la nation," and that the rich should not be given a superiority. The result of any exemption from such an honorable obligation to be taxed would necessarily result in the restriction of democracy.<sup>10</sup> It was chiefly owing to his influence that the new constitution contained the following clause: *Nul citoyen n'est dispensé<sup>11</sup> d'honorable obligation de concourir aux charges publiques.*

In England the first important writer to enunciate this principle was Sir James Steuart. "According to equity and justice all impositions whatsoever ought to fall equally and proportionally on every one according to his superfluity." Steuart proceeds to explain that this means the income that remains to him after the necessary expenses of subsistence. "Whatever a people consumes beyond the necessary I consider a superfluity which may be laid under taxation." Steuart continually recurs to the position that "nothing can be the object of taxation except what is over and above the physical necessary of every one." The "physical necessarians" is one of his favorite phrases.<sup>12</sup>

Dean Woodward, in 1768, puts the same idea even

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<sup>10</sup> "En effet, si vous décrétez que la misère excepte de l'honorable obligation de contribuer aux besoins de la patrie, vous décreterez l'aristocratie des richesses, et bientôt vous verrez ces nouveaux aristocrates, dominant dans les législatures, avoir l'odieux machiavélisme de conclure que ceux qui ne paient point les charges ne doivent point partager les bienfaits du gouvernement. Il s'établirait une classe des prolétaires, une classe d'îlotes, et l'égalité et la liberté périraient pour jamais."

<sup>11</sup> Gomel, *Histoire Financière de l'Assemblée Constituante*, i, p. 464; ii, p. 34.

<sup>12</sup> Steuart, *Political Economy*, 1767, book v, chap. xii. In his *Works*, vol. iv, pp. 298, 314, 317, etc.

more strongly. "Before we begin to tax any income for the poor," says he, "we must deduct from it as much as is requisite to purchase for the possessor and his family the absolute necessaries of life. No man can be bound to give to another what is essential to his own subsistence. To this every man has that exclusive right on which the very claim of the poor is founded."<sup>13</sup>

In the famous debate which resulted in England's first income tax, Lord Auckland upheld the theory of the exemption of a minimum of subsistence — £60 — and defended the gradual rise of the rate up to £200 for the same reasons. But he objected to progressive taxation beyond this "because of the implied inference, that because a man possesses much, therefore more shall be taken from him than is proportionably taken from others."<sup>14</sup> Some of the earlier German writers took the same ground. Thus Sonnenfels in his widely read work in public finance based his theory of proportion on the fact that governmental protection was proportional to property. He demanded, however, the exemption of the minimum of subsistence, which he calls "the sacred portion of mankind."<sup>15</sup> Sonnenfels even goes farther and suggests the exemption in each case of a variable sum according to the standard of life; for he sees that there is no absolutely fixed minimum of subsistence. This system he calls the

<sup>13</sup> Richard Woodward, *An Argument in Support of the Right of the Poor in the Kingdom of Ireland to a National Provision*. Dublin, 1768, p. 50.

<sup>14</sup> *The Substance of a Speech made by Lord Auckland in the House of Peers on the Bill for granting certain Duties upon Income*, 1799, p. 25. That Lord Auckland was a believer in the give-and-take theory clearly appears from his discussion of the income tax as "a fair price for (its) protection." *Ibid.*, p. 27.

<sup>15</sup> "Dieser geheilige Antheil der Menschheit." Sonnenfels, *Grundsätze der Polizei, Handlung und Finanz*, 1765, iii, § 94. See especially 5th ed. (1787), pp. 192-194.

taxation of free income, based on the standard of comfort.<sup>16</sup>

Bentham is thus not the founder of the theory of the exemption of the minimum of subsistence.<sup>17</sup> The chief advocates, however, of the degressive theory (in the sense of proportional taxation above a certain exempted minimum) as an outcome of the give-and-take theory are to be found among the German writers of the first half of this century. They elaborated what is known as the clear income theory of taxation (*Freieinkommens-theorie*) which, as we have seen,<sup>18</sup> rests practically on the Ricardian view of income.

Among the earliest advocates of the clear-income theory resting on the benefit principle was Behr. Behr thinks it "undeniable that the real basis as well as the measure of the duty to pay taxes is to be found in the participation in the protection, and in the enjoyment of the insurance institutions of the State," and that any tax the extent of which is not regulated by this condition sins against the cardinal doctrine of justice.<sup>19</sup> He deduces from this the necessity of a tax proportional to what he calls "clear produce of property."<sup>20</sup>

<sup>16</sup> "Besteuerung des reinen Einkommens" and "standesmässiger Unterhalt" are his words. *Ibid.*, § 102, iii, p. 214-216.

<sup>17</sup> This error, so often repeated, is probably due to John Stuart Mill, who refers only to Bentham in connection with the doctrine. Even recent writers like Cohn, *Finanzwissenschaft*, 1889, § 221, repeat the mistake.

<sup>18</sup> Above, p. 151.

<sup>19</sup> "Es ist nicht zu läugnen dass dieser wahre Grund der Steuerpflicht bestehe in der Theilnahme am Schutz, im Genusse der Garantie-Anstalten des Staats; dass das Mass der Steuerpflicht eines Jeden coincidiren musse mit dem Umfange jener seiner Theilnahme, dieses seines Genusses," etc. Behr, *Die Lehre von der Wirtschaft des Staats, oder pragmatische Theorie der Finanzgesetzgebung*, 1822, pp. 92-93.

<sup>20</sup> "Der reine Vermögens-Ertrag ist der eigentliche Messer der

The clear-produce idea was soon more sharply formulated. Thus Jakob holds that it is just that everyone should pay the state for the advantages that he receives or for the expenses that he occasions, and that this denotes taxation proportional to clear income. By clear income, however, he means the exemption of necessary expenses.<sup>21</sup> On the other hand Lotz is not quite clear about the principle. The first rule, which he says is the legal principle, is to apportion taxes according to the extent of participation in the benefits of the civil life. This is often modified, however, by the second rule, or the economic principle, that men should be taxed according to their income.<sup>22</sup> Lotz thus differs from the others in seeming to set the income principle over against the benefit principle. He proceeds, however, to define the taxable income as the surplus product above expenses, calculated according to the individual circumstances, and he objects to those who desire to take the total income as the standard.<sup>23</sup> Simil-

Theilnahme am Schutz und an den Garantie-Anstalten des Staats, indem sich in ihnen nur die Realität und das Product dieser Theilnahme ausspricht." Behr, *op. cit.*, p. 96.

<sup>21</sup> "Es ist der Gerechtigkeit gemäss dass derjenige die Kosten einer Thätigkeit oder Anstalt trage, der davon zu seinem Vortheile Gebrauch macht, oder durch sein Verhalten zu ihrer Ausübung oder Errichtung Veranlassung giebt." He concludes that taxation must be "nach dem Maßstabe des reinen Einkommens." Jakob, *Die Staatsfinanzwissenschaft*, 1821, pp. 171, 202, 1014; pp. 112, 123 and 608 of second ed. (1837).

<sup>22</sup> "Nach den Gesetzen des Rechts möchte es das Kürzeste sein den öffentlichen Bedarf auf jeden einzelnen Abgabepflichtigen nach den Verhältnissen zu vertheilen, in welchen er an den Vortheilen des bürgerlichen Lebens Anteil nimmt." J. F. E. Lotz. *Handbuch des Staatswirtschaftslehre*, 1822, § 131. See also 2d ed. (1837), iii, p. 179.

<sup>23</sup> "Der einzige, wahre, richtige und brauchbare Massstab . . . ist . . . das reine Einkommen, dass jeder Abgabepflichtige aus seiner Betriebsamkeit als Ueberschuss des dabei gehabten Güteraufwands nach seinen individuellen Verhältnissen zieht, oder mit

arly, a few years later, Fulda demands proportional taxation of clear income, which he defines as the "surplus over the family expenses necessary to subsistence, and over what is needful to maintain one's capital at the original figure."<sup>24</sup> Malchus, who at times seems to hesitate somewhat when considering the bases of taxation, finally concludes that equality and universality of taxation depend on the fact that every one gets an equal protection from the State.<sup>25</sup> Therefore, he thinks, every one should be taxed in proportion to his clear income.<sup>26</sup> Murhard, who gives a good review of the opinions of his predecessors, and who in some places also seem to vacillate between the two theories,<sup>27</sup> finally emerges as a decided opponent of progressive taxation, on the express ground of McCulloch that the only just theory is the leave-them-as-you-find-them theory, which to him means proportional taxation.<sup>28</sup> He however, qualifies this later, by showing that taxes must be proportional only to clear income, according to the

anderen Worten sein individuelles reines Einkommen." *Ibid.*, iii, p. 187.

<sup>24</sup>"Der Ueberschuss über die Bedürfnisse seiner eigenen und seiner Familie absolut nothwendigen Unterhaltes und über die nothwendigen Erfordnisse, die die jährliche Unterhaltung seines bereits erworbenen stehenden und umlaufenden Kapitals fordert." Fulda, *Handbuch der Finanzwissenschaft*, 1827, § 140, p. 151.

<sup>25</sup>They depend "auf den gleichen Schutz für Erstrebung seiner individuellen Zwecke, und auf den gleichen Anteil an dem Genuss der Staatsanstalten." Malchus, *Handbuch der Finanzwissenschaft*, 1830, i, p. 152.

<sup>26</sup>"Die Grösse des Beitrags muss mit der Grösse dieses disponiblen reinen Einkommens möglichst proportionirt werden." *Ibid.*, i, p. 158.

<sup>27</sup>Murhard, *Theorie und Politik der Besteuerung*, 1834, pp. 24, 80.

<sup>28</sup>Murhard quotes the *Edinburgh Review* article of 1833 (without knowing that it was written by McCulloch), and makes that the basis of his argument. *Ibid.*, pp. 540-553. Meyer, *Principien der gerechten Besteuerung*, 1884, p. 41, is therefore wrong in asserting that Murhard is the originator of this doctrine. Cf. above p. 728.

views of Behr and his successors.<sup>29</sup> Finally one of the latest writers to accept this theory was Biersack. Biersack indeed thinks that the ideal standard of taxation is the relative measure of advantages that accrue to the individual.<sup>30</sup> This he finds in the proportional clear income. Unlike some of his predecessors, however, he restricts the "necessary" income to what is absolutely requisite for the individual, not for his family or dependents.<sup>31</sup>

Other more recent writers, who know nothing of the clear-income theory, advocate degressive taxation, not on theoretical grounds, but primarily for practical reasons. Among modern French writers on public finance Chailley is one of the most noted. He is to be distinguished from most of his countrymen in that he advocates an income tax, as a compensatory tax, "impôt de redressement." Like most of the French writers, however, he still follows the give-and-take theory of taxation.<sup>32</sup> Curiously enough, he favors what is known as the "discriminating" theory in the income tax, i. e., a differentiation in the rate according to the source of income. But he opposes progressive taxation for the same reason as Leroy-Beaulieu. Yet again illogically, he advocates the exemption of the minimum of subsistence, "because the poor cannot pay it."<sup>33</sup> Accordingly, he hereby declares himself a partisan of the degressive principle.<sup>34</sup>

Some of these writers are frank enough to confess that they are not logical. Thus the Italian publicist Benvenuti,

<sup>29</sup> Murhard, *op. cit.*, pp. 447-463.

<sup>30</sup> "Das Verhältniss in welchem die Einzelnen an den vom Staate gewährten Vortheilen participiren." Biersack, *Ueber Besteuerung*, 1856.

<sup>31</sup> *Ibid.*, p. 40.

<sup>32</sup> Chailley, *L'Impôt sur le Revenu*, 1884, p. 408.

<sup>33</sup> "Il s'agit seulement de ne pas exiger d'un revenu minime ce qu'il ne peut pas payer." *Ibid.*, p. 420.

<sup>34</sup> "Ce serait l'impôt dégressif." Chailley, *op. cit.*, p. 423.

who also clings to the give-and-take theory and objects to progressive taxation, concedes that the advocates of the exemption of the minimum of subsistence are not logical.<sup>85</sup> He claims, however, that "logic must be tempered with equity"—and hence concludes that the exemption is an "incontestable necessity." We might feel tempted to retort with his own answer to Pescatore: "How can one deny that what is necessary is just?"<sup>86</sup> It is a poor argument which defends degressive taxation, even though illogical, because it is just; and which opposes progressive taxation on the ground that it is unjust, although the same reasons of justice lie avowedly at the basis of each. When we abandon logic, controversy is at an end.

The gradual development of theory from degressive to progressive taxation is seen in Sismondi. Sismondi clings firmly to the give-and-take theory, and maintains that on this account the minimum of subsistence must be exempted. "Taxation being the price paid by the citizen for his enjoyments, we must never demand a tax when there are no enjoyments."<sup>87</sup> In an eloquent plea he points out the grave danger of infringing on this minimum<sup>88</sup>—an argument which clearly holds good only on

<sup>85</sup> "Si, è vero, i fautori dell' imposta proporzionale, ammettendo il minimum, non sono coerenti al loro principio. Un professore di logica dovrebbe sgridarneli." Benvenuti, *Le Imposte. Teoria e Pratica*, 1869, p. 90.

<sup>86</sup> "Poichè come negare che sia giusto ciò che è necessario." *Ibid.*, 77.

<sup>87</sup> "L'impôt étant le prix que le citoyen paie pour ses jouissances, on ne saurait le demander à celui qui ne jouit de rien; il ne doit donc jamais atteindre la partie du revenu qui est nécessaire à la vie du contribuable." Simonde de Sismondi, *Nouveaux Principes d'Economie Politique*, 1819, book vi, chap. ii. The quotation is from the 2nd ed. (1817), vol. ii, p. 170.

<sup>88</sup> "Il y a dans le salaire une partie nécessaire qui doit conserver la vie, la force et la santé de ceux qui le perçoivent, afin que la

the assumption that the tax is not shifted. Sismondi, however, goes further. Inasmuch as most of the public expenses are destined to protect the rich against the poor, it is just "that the rich contribute not only in proportion to their wealth, but something in addition, in order to maintain this order which is so advantageous to them."<sup>39</sup> Sismondi shows how this may be done, and although he thinks that we may admit the principle of proportion "with these slight modifications,"<sup>40</sup> it is apparent that the "slight modifications" in reality constitute a system of progressive taxation. Sismondi, thus almost against his will, abandons the theory of proportional taxation.

Finally, there is a class of writers who deduce from the give-and-take principle the doctrine of progressive taxation in its entirety. The earliest and most important advocate of this theory is the celebrated Jean Jacques Rousseau. Rousseau, it is true, advanced as one of the arguments in favor of progression the point made by Montesquieu as to the sacrifice incurred by the curtailment of necessities.<sup>41</sup> His chief defense, however, rests on the consideration that under existing conditions the wealthy

travail se continue, afin que la salaire qui pour eux est un revenu, mais qui est un capital pour ceux qui payent, puisse rendre à ces derniers les fruits qu'ils en attendent, et continuer, d'année en année, à imprimer le mouvement à la machine sociale. Malheur au gouvernement qui touche à cette partie; il sacrifie, tout ensemble, et des victimes humaines et l'espérance de ses future richesses." Sismondi, *op. cit.* p. 168.

<sup>39</sup> "La plus grande partie des frais de l'établissement social est destinée à défendre le riche contre le pauvre; parceque, si on les laissait à leurs forces respectives, le premier ne tarderait pas à être dépourvu. Il est donc juste que le riche contribue, non seulement en proportion de sa fortune, mais par delà même cette proportion, à soutenir un ordre qui lui est aussi avantageux." *Ibid.*, p. 155.

<sup>40</sup> "Avec ces légères modifications, on peut donc admettre la règle générale que chacun doit contribuer au maintien de la société en proportion de son revenu." *Ibid.*, p. 157.

<sup>41</sup> See below, historical appendix five.

secure more benefits from government than do the poor. He gives a most vivid picture of the situation at that time in France, showing the wretched condition of the lower classes.<sup>42</sup>

“Un troisième rapport, qu'on ne compte jamais, et qu'on devrait toujours compter le premier, est celui des utilités que chacun retire de la confédération sociale, qui protège fortement les immenses possessions du riche, et laisse à peine un miserable jouir de la chaumiére qu'il a construite de ses mains. Tous les avantages de la société ne sont-ils pas pour les puissans et les riches? Tous les emplois lucratifs ne sont-ils pas remplis par eux seuls? Toutes les grâces, toutes les exemptions ne leur sont-elles pas réservées? Et d'autorité publique n'est elle pas toute en leur faveur? Qu'un homme de considération vole ses créanciers, ou fasse d'autres friponneries, n'est-il pas toujours sûr de l'impunité? Les coups de baton qu'il distribue, les violences qu'il commet, les meurtres mêmes et les assassinats dont il se rend coupable, ne sont-ce pas des affaires qu'on assoupit, et dont au bout de six mois il n'est plus question? Que ce même homme soit volé, toute la police est aussitôt en mouvement et malheur aux innocens qu'il soupçonne. Passe-t-il dans un lieu dangereux? Voilà les escortes en campagne; l'essieu de sa chaise vient-il à se rompre? Tout vole à son secours; fait-on du bruit à sa porte? Il dit un mot, et tout se tait: la foule l'incommode-t-elle? Il fait un signe, et tout se range: un charretier se trouve-t-il sur son passage? Ses gens sont prêts à l'assommer; et cinquante honnêtes piétons allant à leurs affaires seraient plutôt écrasés, qu'un faquin oisif retardé dans son équipage. Tous ses égards ne lui coûtent pas un sou; ils sent le droit de l'homme riche, et non le prix de la richesse. Que le tableau du pauvre est différent; plus l'humanité lui doit, plus la société lui refuse; toutes les portes lui sont fermées même quand il a le droit de les faire ouvrir; et si quelquefois il obtient justice, c'est avec plus de peine qu'un autre n'obtiendrait grâce: s'il y a des corvées à faire, une milice à tirer c'est à lui qu'on donne la préférence; il porte toujours, outre sa charge, celle dont son voisin plus riche a le crédit de ce faire exempter—à moindre accident qui lui arrive, chacun s'éloigne de lui, si sa pauvre charrette renverse, loin d'être aidé par personne, je le tiens heureux s'il évite en passant les avanies des genslestes d'un jeune Duc; en un mot, toute assistance gratuite le fuit au besoin, précisément parce qu'il n'a pas de quoi la payer, mais je le tiens pour un homme perdu, s'il a le malheur d'avoir l'âme honnête, une fille aimable, et un puissant voisin.” Rousseau, *Discours sur l'Oeconomie Politique*, Geneva, 1758, pp. 61-62.

After calling attention to several minor points Rousseau sums up the relation between the poor and the rich in the following words:<sup>43</sup> "You need me for I am rich and you are poor: let us make a compact. I'll permit you to have the honor of serving me on condition that you give me the little that you have left in return for the trouble I am taking in ordering you about." The conclusion from all this is, in Rousseau's opinion, the progressive rate, for taxation ought to be imposed not only in proportion to the wealth of the taxpayer but in a ratio based on a consideration of their relative superfluities.<sup>44</sup> And he adds, rather maliciously: "Opération très important et très difficile que font tous les jours des multitudes de commis honnêtes gens et qui savent l'arithmétique, mais dont les Platon et les Montesquieu n'eussent osé se charger qu'en tremblant et en demandant au ciel des lumières et de l'intégrité."<sup>45</sup>

The most exhaustive defense of progressive taxation in the 18th century, however, is made by Graslin in an anonymous work designed to review the doctrines of the Physiocrats, or, as they were then called, the Economists.<sup>46</sup> Graslin starts out from the benefit theory of taxation. Every one, he tells us, needs to be protected,

*"Resumons en quatre mots le fait social des deux états. Vous avez besoin de moi, car je suis riche, et vous êtes pauvre: faisons donc un accord entre nous: je permettrai que vous ayez l'honneur de me servir, à condition que vous me donnerez le peu qui vous reste pour la peine que je prendrai de vous commander."*

*"Si l'on combine avec soin toutes ces choses, on trouvera que, pour repartir les taxes d'une manière équitable et vraiment proportionnelle, l'imposition n'en doit pas être faite seulement en raison des biens des contribuables, mais en raison composé de la différence de leur conditions et du superflu de leurs biens."*

*"Ibid.*, p. 63.

*"Essai analytique sur la Richesse et sur l'Impôt, ou l'on refute la nouvelle Doctrine Économique, qui a fourni à la Société Royale d'Agriculture de Limoges les principes d'un programme qu'elle a publié sur l'Effet des Impôts indirects. 1767. An elaborate expo-*

and this need of protection is among our chief wants. It therefore constitutes an element of wealth like other forms of wealth; and as a consequence a tax represents an exchange of the wealth of production in return for other wealth in proportion to the relative values of each. This, he says, is the primitive law of taxation.<sup>47</sup> Civilization, however, upsets this primitive arrangement and brings about a state of affairs which completely inverts the natural order. For now some contribute to the mass of wealth more than they get out of it, and *vice-versâ*. Consequently, since those who get out of it more than they put in ought to pay for the wealth common to all, it follows that they ought to be taxed accordingly.<sup>48</sup> This, however, he tells us, leads by a somewhat different train of reasoning to the progressive principle.<sup>49</sup> It is precisely here, however, that Graslin leaves the basis of the benefit theory and adopts that of the faculty theory. He may, therefore, more properly be considered under that head a little later.<sup>50</sup>

sition of his general doctrine will be found in J. Desmars, *Un Précurseur d'Adam Smith en France*. J. J. L. Graslin, 1900.

<sup>47</sup> "Le besoin de la protection qui tient un des premiers rangs dans l'ordre des besoins pour les hommes en société, donne un véritable valeur de richesse à la puissance protectrice, qui, sous cette considération, est une partie de la richesse de la nation. . . . L'impôt consiste donc dans l'échange de la richesse de protection contre les autres richesses, en raison des valeurs relatives de chacune. C'est la loi de la nature même; c'est la règle primitive de l' impôt." *Op. cit.*, pp.324, 328-9.

<sup>48</sup> "L'ordre même de la nature étant interverti par l'ordre social, dans lequel les uns mettent à la masse de la richesse beaucoup plus qu'ils n'en retirent; ceux, qui retirent de la masse plus qu'ils n'y mettent, doivent être chargés de l'achat de cette richesse commune à toute la société; et cela en raison de l'avantage qui en revient à chacun d'eux." *Ibid.*, p. 329.

<sup>49</sup> "Ce que nous ramène par des considérations différentes à la loi de la contribution dans une raison toujours progressive des facultés de chaque contribuable." *Ibid.*, p. 330.

<sup>50</sup> See below, historical appendix five.



Another and perhaps better known advocate of this tendency is the celebrated Condorcet. Condorcet starts out by maintaining the necessity of exempting the minimum of subsistence. A proportional tax on the income exceeding a given sum, he tells us, is a progressive tax on the whole income; and this is in complete accord with the principles of the most rigorous justice.<sup>51</sup> (In reality it is degressive taxation on the whole income. Scientific terminology, however, it must be remembered, was not yet well developed in his day). We must go further, however, says Condorcet. There are some public expenses which have a special value to the rich, without losing their value common to all. In fact, we can never really encourage the useful arts without producing a perfection which will be of especial benefit to the wealthy. Hence the rich ought to pay an additional sum because of certain exclusive benefits that accrue to them from governmental activity. This is the second sense in which progressive taxation is just.<sup>52</sup> Condorcet

<sup>51</sup> "La partie de ce revenu, nécessaire à la subsistance de la famille, ne peut être imposée . . . C'est donc sur l'excédant seul que l'impôt doit être placé. . . . Voilà donc un impôt proportionnel sur la portion du revenu excédant 400 livres, mais progressif sur le revenu entier et cette distribution est absolument conforme aux principes de la plus rigoureuse justice." Condorcet, *Sur l'Impôt Progressif*, 1792, in Guillaumin's edition of *Mélanges d'Economie Politique*, i (1847), p. 567.

<sup>52</sup> "Or il existe des dépenses dont l'utilité n'est au dessus des privations occasionées par l' impôt que pour ceux auxquels il n'ôte qu'un véritable superflu. . . . Ensuite la même dépense ne peut-elle avoir pour le riche une utilité dont il profite seul, sans qu'il ne perde rien de l'utilité commune à tous? . . . Il serait donc très juste de dire: tous les revenus sont proportionnellement imposés; mais, au-dessus d'un certain terme, l'excédant paiera proportionnellement une autre contribution. . . . Celle-ci sera destinée à faire payer par les riches certains ayantages exclusifs qu'ils retirent de dépenses, faites à la vérité pour l'utilité générale, mais dont il résulte nécessairement des jouissances qui ne peuvent être que pour

goes on to point out some limitations on the rate of graduation. In principle, however, he favors progression because of his belief in the greater benefits to the wealthy.

Similar ideas were common at the time of the French Revolution. Thus, the pamphleteers, Noilliac and Delaunay, as well as Roland, the future minister, upheld progressive taxation on the ground that the rich derived more benefit from the government than the poor.<sup>53</sup>

In the same way Vernier, one of the prominent members of the Convention, published early in 1793 a monograph in which he defended the progressive principle, since the rich man has far more interest in the maintenance of the social order than the poor man, and since he derives more advantages from it, the tax, he thinks, ought to be "tellement combinée qu'elle soit en raison composée des avantages qu'on retire de la société."<sup>54</sup> Vernier, however, adds to this defense, in which he quotes from Rousseau, two other arguments which show that he was an eclectic. Thus he accepts the socialistic theory when he says that one of the objects of the progressive tax is to "détruire ces inégalités, ces loupes monstrueuses du corps politique qui dévore tout ce qui les environne;" and finally he follows Montesquieu<sup>55</sup> in claiming that "il en coûte moins aux riches de prendre sur leur superflu qu'aux pauvres de prendre sur leurs besoins."<sup>56</sup>

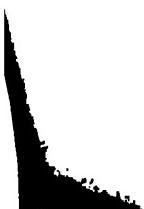
A little later in the year Robespierre espoused the  
eux seuls. Voila encore un second sens dans lequel l'impôt progressif est conforme à la justice." Condorcet, *op. cit.*, pp. 568-569.

<sup>53</sup> Noilliac, *Le plus fort des Pamphlets. L'Ordre des Paysans aux Etats Généraux*, 1789, p. 21; Delaunay, *Bases Générales d'un Système d'Imposition*, 1793, pp. 11-12; Roland, in *Le Financier Patriote*. Cf. Lichtenberger, *Le Socialisme au XVIIIe Siècle*, 1895, pp. 401, 429, 438 et passim.

<sup>54</sup> Vernier, *L'Impôt sur le Luxe et les Richesses*.

<sup>55</sup> See below, historical appendix five.

<sup>56</sup> For his practical proposition, see above, pp. 33-34.



same idea, and posited the question as to whether anything could be more clearly inherent in the nature of things or based more firmly in eternal justice than the obligation to contribute progressively in accordance with benefits received.<sup>57</sup> He desired the principle to be consecrated in the new constitution in the following article: "Les citoyens dont les revenus n'excèdent point ce qui est nécessaire à leur subsistance doivent être dispensés de contribuer aux dépenses publiques, les autres doivent les supporter progressivement selon l'étendue de leur fortune."<sup>58</sup> Later on, however, Robespierre changed his mind as to the exemption of the minimum of subsistence.<sup>59</sup>

The chief modern advocate of progressive taxation as the outcome of the give-and-take theory is Joseph Garnier. Garnier makes a distinction between the progressive tax and what he calls the progressionary tax. In the former case the progression is rapid and unlimited, and the tax is therefore absurd, because it is simply a means of spoliation. In the latter case, that of the "rational and serious progressive tax," the progression increases very slowly and stops at a moderate maximum, so that it can never exceed a definite and limited portion of the income. This is what he calls the progressionary tax, or the rational progressive tax. While he hotly opposes the first species, Garnier strongly upholds the second, and objects to most of the French writers for confounding the two. In reality, however, notwithstanding Garnier's explanations,

<sup>57</sup> "En matière de contributions publiques, est-il un principe plus évidemment puisé dans la nature des choses, et dans l'éternelle justice, que celui qui impose aux citoyens l'obligation de contribuer aux dépenses publiques progressivement selon les avantages qu'ils retirent de la société."

<sup>58</sup> Gomel, *Histoire de la Législative et de la Convention*, 1902, i, p. 464.

<sup>59</sup> See above, p. 184. Cf. also Robespierre's monograph entitled, *Sur l'Impôt Personnel*, 1790.

there is no substantial difference in principle. They are both progressive taxes.

The real basis of Garnier's defense of the progressive tax, in the sense of a moderate progression, is that the protection afforded by the state increases faster than the increase of property. This he regards as a self-evident fact, and is content with simply positing it as an axiom. Since protection increases more than proportionally to property, taxation must increase progressively. That, he tells us, is the really legitimate, really rational, ideal tax.<sup>60</sup> It is true, indeed, that Garnier later refers to the possibility of basing the principle of progression on some other reason, when he asks, "In case of public expenses for other purposes than for security, is it not legitimate for the rich to pay more than the poor?"<sup>61</sup> He does not attempt to develop this idea, however, so that Garnier's

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"L'impôt idéal vraiment légitime, vraiment rationnel est celui qui équivaut exactement aux avantages que le contribuable retire de la société et surtout à la valeur de la sécurité qui lui est garantie. Or la question est de savoir si ceux qui ont de forts revenus et une belle situation dans la société ne sont pas protégés plus que proportionnellement à leur fortune. Si l'on trouvait que les citoyens plus aisés sont protégés progressivement, c'est à dire que la protection qu'ils reçoivent est plus que proportionnelle à leur avoir physique et morale, ils devraient contribuer plus que proportionnellement; alors la légitimité de l'impôt progressif ne saurait être combattue, et la difficulté ne serait plus que dans les moyens d'application. Dans ce cas, toutes les réformes financières devraient tendre à établir une proportion progressive, si je puis dire, plus juste et plus équitable que l'égalité de l'impôt qui n'est la plupart du temps qu'une monstrueuse inégalité; encore plus juste et plus équitable que la simple proportion (souvent improportionnelle en fait)." Jos. Garnier, *Traité des Finances*, 4th ed. (1883), p. 69. Cf. first edition (1858), p. 25. The idea is found already in his *Éléments d'Economie Politique*, 1st ed. (1846).

"Quand il s'agit de dépenses publiques autres que celles de la sécurité, quand il s'agit de dépenses de luxe, d'agrément, etc., ne semble-t-il pas légitime que le riche et l'aisé payent plus largement que le pauvre, que le citadin paye plus que le campagnard." *Ibid.*

contention may be said to rest on the principle of protection.

In Germany several writers have maintained that the give-and-take theory leads to progressive taxation, which they uphold on that account. In one of his earlier works Eisenhart asserts that "the benefits which individuals do or can derive from governmental institutions increase in geometrical progression."<sup>62</sup> So Judeich thinks that the state offers a great many advantages which may theoretically be enjoyed by all, but most of which are practically enjoyed only by the wealthier classes. Hence to tax every one in a strict proportion would be unjust.<sup>63</sup>

One of the most interesting discussions of progression is that of the French engineer, Vauthier, who was inspired by the Revolution of 1848.<sup>64</sup> Vauthier takes it for granted that taxation must be regarded as an insurance-premium, but he denies that the insurance-premium idea leads necessarily to proportional taxation. He points out that it is really not the pieces of property, but the individuals, that insure themselves, and that as soon as we grant this we abandon the right to absolute private property and supplant it by the idea of property as a social

<sup>62</sup> "Denn der Vortheil, welchen ein Jeder von den öffentlichen Anstalten hat oder haben kann nimmt nicht blos einfach mit seinem Einkommen zu, sondern steigt in zusammengesetzten Sätzen in geometrischer Progression." Eisenhart, *Philosophie des Staates*, ii (1844), p. 197. Later on, it is true, in his special work on taxation he formally abandons the give-and-take theory completely. Eisenhart, *Kunst der Besteuerung* (1868), pp. 5-9.

<sup>63</sup> "Der Staat bietet eine Menge Vortheile, welche zwar von allen Unterthanen benutzt werden dürfen, die aber nur von den Wohlhabenden benutzt werden können. Es wäre ungerecht, den weniger Bemittelten im gleichen Verhältnisse zu besteuern, da er nicht im Stande ist, im gleichen Verhältnisse die Einrichtungen des Staates zu gebrauchen." Judeich, *Die Rentensteuer im Königreiche Sachsen dargestellt* (1857), pp. 111-112.

<sup>64</sup> L. L. Vauthier, *De l'Impôt Progressif. Etudes sur l'Application de ce Mode de Prélèvement à un Impôt quelconque*, 1851.

institution. If, however, property is a social category, society has a perfect right to modify the form and content of private property, and is hence justified in making taxation progressive if it thinks that the results would be socially advantageous.<sup>65</sup> Vauthier's defense of the progressive principle is really negative rather than positive. He is concerned chiefly with reviewing the arguments generally advanced in opposition. The chief objection of the day was that the problem of assuring the regularity and continuity of the progressive scale was mathematically insoluble. This objection he seeks to meet by a series of carefully framed formulae, constructed according to a progressively diminishing rate of geometrical increase until the increase itself stops when the rate of the tax reaches fifty per cent of the income.<sup>66</sup> He attempts, furthermore, to show how the scale is applicable to other imposts in addition to the income tax.<sup>67</sup>

Finally, while Vauthier declares that he is far from exaggerating the importance of the progressive principle, and while he is willing to concede that an erroneous appli-

<sup>65</sup> "Mais l'impôt, dit-on, est le prix de la protection donnée à la propriété, c'est l'assurance que chacun consent à payer pour jouir en paix du fruit de son travail. De là découle, inévitablement, l'idée de la proportionnalité. J'admetts cette convention tacite, cette sorte d'assurance mutuelle des individus pour la protection de leurs propriétés. . . . Mais . . . ce sont en definitive les individus qui s'associent à propos de la propriété, et la nécessité de cette convention, à laquelle nul ne peut se soustraire, fait perdre à la propriété son caractère de droit individual, pour lui imprimer profondément le cachet d'institution sociale. La société a donc le droit de modifier la forme de la propriété et de régler la question de l'impôt comme toutes autres, au mieux de l'intérêt de ses membres et suivant ce qui lui paraît, à une moment déterminé, la conséquence la plus logique et la plus avancée possible de la loi de justice. Elle peut donc adopter à sa volonté l'impôt progressif au lieu de l'impôt proportionnel." Vauthier, *op. cit.*, pp. 10-11.

<sup>66</sup> *Ibid.*, chap. iv, pp. 32-50.

<sup>67</sup> *Ibid.*, chap. 5-7, pp. 50 and 76.

cation of the principle might lead to very serious evils,<sup>68</sup> he concludes that the difficulties of application are in reality very slight; that the fears of arbitrariness in the system and of fraud in the returns are illusory; that the social influence of a progressive tax, far from being spoliatory in character, would favor agricultural improvements; and that the fiscal returns would be at least as great as in the case of a proportional tax, with the added advantage of exempting the lower incomes.

The most remarkable attempt to prove that the give-and-take principle leads logically to progressive taxation was made by the French engineer Fauveau, in another work where the mathematical method is applied to taxation. Fauveau discusses four possible bases of taxation, namely that taxes should be based on the hypotheses: (1) that every one owes to society what he gains from the social protection; (2) that every one owes to society what it cost society to protect him; (3) that every one ought to receive from the social protection an equal moral advantage; (4) that society ought to impose on every one an equal moral sacrifice.<sup>69</sup> Here we are concerned with the first two hypotheses only. The others we shall take up later.<sup>70</sup>

Fauveau objects to the assertions of Thiers and Molinari that the insurance theory leads to proportion. Insurance companies, says he, fix the premiums not alone in proportion to the amount of property insured but according to the risks; so that the same amount of property may often pay different rates of insurance. Now

<sup>68</sup> "Dans l'état actuel de notre constitution économique nous pensons qu'une application mal faite donnerait lieu, sans grands avantages, à des perturbations énormes et soulèverait une répulsion des plus vives." *Op. cit.*, p. 12.

<sup>69</sup> G. Fauveau, *Considérations Mathématiques sur la Théorie de l'Impôt* (1864), p. 12.

<sup>70</sup> Below, historical appendix five.

100,000 francs of property which belong to one man would (if there were no social protection) stand a much greater chance of being pillaged than the same amount belonging to several individuals. The premium of insurance would have to be made up of all the infinitely small premiums for insuring each particular element of the large property; for one runs the risk of losing not only the whole of the property but all the amounts inferior to the whole.<sup>71</sup> After a lengthy computation, bristling with mathematical formulas, Fauveau concludes that taxation regarded as an insurance premium must increase more rapidly than the value of the property insured, but less rapidly than the square of the value.<sup>72</sup> In other words, the insurance theory of taxation leads to progression.

On the other hand, if we desire to proportion taxation to the cost of benefits received, Fauveau thinks it impossible to settle on any definite rate. The cost of punishing attacks made on security of property grows less rapidly than the value of the property; but the cost of preventing possible attacks is progressive, just as are the insurance premiums. He maintains, however, that in this case it is impracticable to frame any mathematical proportion.<sup>73</sup> These arguments, as we have already seen, are not very convincing.<sup>74</sup> It is interesting, however, to

<sup>71</sup> "C'est que chaque individu doit, pour être assuré de la possession de son bien, une somme qui se compose de toutes les primes infinitement petites dues pour se faire assurer chacun des éléments de ce bien, car on court risque d'être volé non seulement de la totalité de son bien, mais de toutes les sommes inférieures à cette totalité." Fauveau, *op. cit.*, p. 24.

<sup>72</sup> "L'analyse mathématique prouve que l'impôt doit croître plus rapidement que la valeur des biens assurés, mais moins rapidement que le carré de la valeur de ces biens." *Ibid.*, p. 26.

<sup>73</sup> *Ibid.*, § 32.

<sup>74</sup> See above, pp. 154-156.

note how the defenders of the benefit theory advance, by a gradual evolution, to a point where they virtually advocate progressive taxation.

Let us now leave this whole school and investigate the arguments of those who propound, on the contrary, what is known as the faculty theory of taxation.

## CHAPTER III.

### THE FACULTY THEORY.

The faculty theory of taxation is very old. That a man should contribute to the public burdens in proportion to his ability or faculty is a principle which dates back to the middle ages, both in theoretical literature and in practical legislation, and which may even be found in its main outlines in the writings of the Greek philosophers. The word "faculty" is the usual one in Latin and French tax laws and is the general term employed in all the early American laws, so that "faculty" seems to be a peculiarly appropriate term to use in American discussions. For a long time, however, the best practical test of faculty was supposed to be general property. Thus all through the middle ages when local taxes were levied at all, they were assessed on general property on the principle *juxta bonorum facultatem* or *pro bonorum facultate*.<sup>1</sup>

In England the most familiar instance of the use of the word ability is that of the Elizabethan poor law, which provides for the taxation of every inhabitant of the parish "according to the ability of the parish"—a term interpreted to mean property.<sup>2</sup> It had been so common to identify faculty with property that when the words abi-

<sup>1</sup> Cf. the chapter on "The General Property Tax," in Seligman, *Essays in Taxation*.

<sup>2</sup> Stat. 43 Eliz., chap. 2, sec. 1. For the gradual change in the interpretation of the word see the volume entitled, *The Local Taxes of the United Kingdom, published under the direction of the Poor Law Commissioners*, 1846, p. 8 *et seq.* For earlier examples of the use of the term "ability" see E. Cannan, *The History of Local Rates in England*, 1896, ch. 1.



lity or faculty were first used in American colonial legislation they were held to be tantamount to property.<sup>3</sup>

Later on, the interpretation of "faculty" was somewhat altered. From meaning property, it now began to denote revenue or income. It was, however, still interpreted to imply a proportional tax,—proportional now no longer to property but to income. We see this idea carried out in legislation. Thus, not to speak of the mediæval town taxes in Europe, we find in the revenue laws of the American colonies toward the middle of the eighteenth century the word "faculty" used to designate the "returns and gains" as over against the "visible estates" or property; and the tax was expressly called the "faculty tax" or the "assessment on the faculty."<sup>4</sup> Similarly during the French Revolution the principle was repeatedly laid down that taxation should be according to faculty, or according to estates and faculties,—faculty being presumed to stand for revenue as over against property.<sup>5</sup>

<sup>3</sup> See the above-mentioned chapter on "The General Property Tax." The American writer Gale holds that the rule of taxing people according to their respective abilities means that the taxes must be assessed according to their respective "estates or visible abilities." Cf. the anonymous work (by S. Gale), *An Essay on the Nature and Principles of Public Credit*, 1784, p. 171.

<sup>4</sup> See the laws of Massachusetts Bay (1646), Plymouth (1643), Connecticut (1650), New Haven (1649), and Rhode Island in the chapter on "The General Property Tax." in Seligman, *op. cit.*

<sup>5</sup> "La contribution commune doit être également répartie entre tous les citoyens en raison de leur facultés." "Déclaration des Droits de l'Homme et du Citoyen." 26 Août—3 Novembre, 1789, §13. Repeated word for word in the Constitution of 1791, §13. "Toutes les contributions et charges publiques seront supportées proportionnellement par tous les citoyens et par tous les propriétaires à raison de leurs biens et facultés." Acte constitutionnel sur les Impôts de 12 Oct.—6 Nov., 1789, § 1. "Les contributions seront reparties entre tous les contribuables à raison de leur facultés." Constitution du 5 Fructidor, An III (1795), § 306. The work of Hélie, *Les Constitutions de la France*, 1880, contains all the clauses referred to. See pp. 32, 53, 269 and 461.

Throughout the French Revolution, however, with only one exception,<sup>6</sup> the faculty tax was held to mean a proportional, not a progressive tax. And even in this one exceptional case, as we have seen,<sup>7</sup> the Convention refused to apply the interpretation to taxes in general, making it applicable only to forced loans. The attempt in 1793 to put this interpretation into the Declaration of Rights of the new Constitution, was a failure. In 1795 Villetard again endeavored to convince the legislature that the word "faculty" in the Constitution necessarily implied progressive taxation. He was, however, unable to overcome the opposing arguments of Dauchy<sup>8</sup> or to carry the Assembly with him.

In the cahiers also the overwhelming mass of documents, some of which use the term faculty, advocate proportional taxation. This is a perfectly explicable phenomenon when we remember that one of the chief objects of the Revolution was to abolish the manifold exemptions and to bring about equality of taxation.<sup>9</sup> The only two cases where progressive taxation was demanded in the cahiers will be mentioned below. Later on, in the French constitutions of 1814<sup>10</sup> and 1830,<sup>11</sup> the term faculty tax seems to be used in the sense of a proportional tax on property. It was, however, not so understood by the legislature, which continued the revolutionary system of taxation

<sup>6</sup> See the law of 1793, p. 214 of this monograph.

<sup>7</sup> See above, pp. 33, 34.

<sup>8</sup> Dauchy, *Rapport contre le Système de l'Impôt Progressif fait à la Séance du 10 Brumaire de l'an V, au Nom de la Commission des Finances*. Cf. Stourm, *Bibliographie*, etc., p. 261.

<sup>9</sup> A. Lichtenberger, *Le Socialisme et la Révolution Française*, 1809, p. 26.

<sup>10</sup> "Les Français contribuent indistinctement, dans la proportion de leur fortune, aux charges de l'Etat." *Charte Constitutionnelle du 4 Juin, 1814*, § 2. In Hélie, *op. cit.*, p. 886.

<sup>11</sup> *Charte Constitutionnelle du 7 Août, 1830*, 82; Hélie, *ibid.*, p. 988.

according to revenue; and in the constitution of 1848 the old words "faculty and fortune" are again employed to designate the proportional tax.<sup>12</sup>

The idea that faculty or ability is measured by income obtained a firm foothold in theory through the celebrated maxim of Adam Smith that "the subjects of every state ought to contribute . . . as nearly as possible in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy," etc. For some time, as a result, the theorists regarded the proportional income tax as the ideal, which ought to be substituted for the whole existing system of taxation.

It was not long, however, before a slightly different interpretation was put on faculty. Income was still regarded as the test of faculty, but the definition of income was altered, or rather only a portion, in lieu of the whole, of the income was henceforth regarded as the standard of ability.<sup>13</sup> Only that part of income which exceeded what was necessary for existence was declared taxable. The idea, as we know, had already been developed by the advocates of the give-and-take theory of taxation, like Steuart, Bentham, Forbonnais and a whole host of German writers in the first half of this century. But the clear-income theory, as it is called, was adopted also by the advocates of the faculty principle. That is to say, taxation as demanded by the faculty principle should be propor-

<sup>12</sup> "Chacun contribue à l'impôt en proportion de ses facultés et de sa fortune." *Constitution du 4 Nov.*, *op. cit.*, 1848, § 15. In Hélie, *op. cit.*, p. 1104.

<sup>13</sup> A curious and little known interpretation of the term "ability" is found in the eighteenth century in the administration of the English local poor rate. The "ability" of the taxpayer was normally to be found in the actual rent of his property, but the court held that some regard should be paid *ad statum et facultates* and interpreted this to mean the number of the family. Cf. the case in 1 Bott., 119. It has already been pointed out that the English income tax later on made abatements according to the size of the family.

tional indeed, but proportional only to that part of the income which exceeded a definite sum. In other words, the minimum of subsistence should be exempted. It is readily seen that the resulting tax would not be strictly proportional, but that it would be graduated as to the entire income, although it would be proportional to a certain excess of income.

The entering wedge, which thus began to modify the conception of faculty, was soon pushed further in. The original idea, as we have seen, was that of production. Whether the product was taken as it was received, in the shape of income, or as it permanently remained in the shape of property, is immaterial so far as this point is concerned. Both property and income, as tests of faculty, had regard to conditions of production. As soon, however, as a demand was made for the exemption of the minimum of subsistence, a new factor was introduced,—namely, the conditions of consumption. What the individual received or produced in the way of income was no longer the only consideration; the ability to apply this product to the satisfaction of his necessary wants became an equally cogent factor.

It was, however, only a step to enlarge the conception of consumption. Not alone the satisfaction of necessary wants, but the satisfaction of all wants, now became the watchword. Faculty was declared to consist not alone in the power of production or the extent of product, but also in the power to use the product in order to satisfy all one's wants. The conditions which limit faculty are to be found not only in the amount of the income, but in the demands that are made upon the individual in disposing of his income. In other words, the idea of burden, or of sacrifice, was introduced. Equality of pressure, or equality of sacrifice, now became a fundamental consideration;

and faculty, or capacity to pay taxes, was henceforth declared to be measured by that proportion of his product or income, the loss of which would impose upon the individual an equal burden or sacrifice with his neighbor.

The doctrine of faculty as reinvigorated by the conception of sacrifice was made the starting point of a new scientific movement. Some writers, like the German Rau, declared the two ideas virtually synonymous. Some, like John Stuart Mill, entirely dropped the conception of faculty, and maintained that the only test of just taxation was equality of sacrifice. Finally, other more modern authors have sought to combine the two ideas, contending that the conception of faculty can really be grasped only when interpreted in the light of equal sacrifice, or when conditioned by it.

What, now, were the conclusions drawn from this doctrine of equal sacrifice,—a doctrine which, as we shall see, is by no means so new as it has been generally assumed to be, and which is found in many of the writers who have almost universally been passed over in the history of the science of finance? The argument may be expressed as follows:

All individual wants vary in intensity, from the absolutely necessary wants of mere subsistence to the less pressing wants which can be satisfied by pure luxuries. Taxes, in so far as they rob us of the means of satisfying our wants, impose a sacrifice on us. But the sacrifice involved in giving up a portion of what enables us to satisfy our necessary wants is very different from the sacrifice involved in giving up a portion of what enables us to satisfy our less urgent wants. If two men have incomes of one thousand dollars and one hundred thousand dollars respectively, we impose upon them not equal, but very unequal, sacrifices if we take away from each the



same proportion, say ten per cent. For the one thousand dollar individual now has only nine hundred dollars, and must deprive himself and his family of necessities of life; the one hundred thousand dollar individual has ninety thousand dollars, and if he retrenches at all in his expenditures, which is very doubtful, he will give up only great luxuries, which do not satisfy any pressing wants. The sacrifice imposed on the two individuals is not equal. We are laying on the one thousand dollar man a far heavier sacrifice than on the one hundred thousand dollar man. In order to impose equal sacrifices we must tax the richer man not only absolutely, but relatively, more than the poor man. That is, the tax must be not proportional, but progressive; the rate must be lower in the one case than in the other. Since our wants shade imperceptibly into each other, from absolute necessities, to comforts, to comparative luxuries, to extreme luxuries, logic would require the progression to be gradual.

This doctrine was soon assailed from several sides. Some, like Leroy-Beaulieu, opposed it simply because they denied the validity of the sacrifice theory as over against the benefit theory. They may, however, be passed over here, as they have already been discussed under the head of advocates of the benefit theory. Others, like Mill, asserted that the doctrine was "too disputable entirely," without clearly showing, however, in what way it could be disputed. For they still believed in the equality-of-sacrifice doctrine, although they did not desire to go beyond the exemption of the minimum of subsistence. Others, again, among recent writers, have accepted the conclusion as to progressive taxation, but maintain that the premises should be slightly altered. Others, finally, have pointed out that the conclusion itself should be somewhat changed.

Let us take up the last point first. If we accept the argument, so it was said, it follows that the rate of progression should continually increase until finally the whole income or property would be swallowed up by the tax. This is a common objection, and one of the favorite arguments with opponents of progressive taxation. It may be traced as far back as the last century. Jollivet, for example, called the progressive tax the vulture which consumes its own entrails.<sup>14</sup> In answer to this it was pointed out that the progressive rate would satisfy the demands of theory by applying only to the successive increments of property or income, so that the hundred per cent rate, even if it were ever reached, would never apply to the entire income, and that the tax therefore could never confiscate the whole. Many of the advocates of progressive taxation, moreover, hold that the rate of progression ought itself to be degressive. This was deemed to follow logically from the argument above. For if the intensity of our wants differs very considerably with different objects, the loss of a given sum of money will affect the poor man and the rich man very unequally; because in the one case it trenches upon necessities, in the other case it does not. In proportion, however, as we approach the less necessary wants, the difference in intensity diminishes, until finally, when we deal with large deductions from large incomes, there is virtually no difference in the intensity of the wants because these amounts serve to satisfy wants for extreme luxuries, the loss of which will be of equally little importance. Therefore the rate of taxation should gradually increase up to a certain point, after which the progression of the rate should decrease with the difference in the intensity of the

<sup>14</sup> "L'impôt progressif, en dernière analyse, c'est le vautour déchirant ses propres entrailles." J. B. M. Jollivet, *De l'Impôt Progressif, et du Morcellement des Patrimoines*, 1793, p. 96.

wants, until finally when the point is reached beyond which the wants are of equally little importance, the rate should be the same. In other words taxation should be progressive, but the rate of progression should itself gradually decrease. Equality of sacrifice therefore leads to degressively progressive taxation.

We come, now, to those writers who accept the conclusion, but desire a change in the premises. For instance, some, like the recent Austrian economist, Meyer, while approving progressive taxation, think that the premises prove too much. If the doctrine of equal sacrifice is to be interpreted as meaning that the intensity of the wants, which remain unsatisfied because of the tax, must be equal, then the tax would have to take from the larger income the whole difference between it and the smaller income, as only thus could equality of sacrifice in the sense indicated be attained. But this, they hold, would be rank communism. These writers, therefore, propose to measure the equality of the sacrifice in a different way,—not by the intensity of the wants that remain unsatisfied because of the tax, but by the degree in which the tax increases the intensity of the last wants that are actually satisfied. The stress is laid upon the satisfied, not the unsatisfied, wants.

This objection, however, is of little weight, because it ascribes an arbitrary meaning to the word "equal." When economists speak of equal sacrifice they mean relatively proportional sacrifice. When we advocate equality of taxation, we certainly do not mean that the identically same amount should be taken from each one; for that would involve the grossest inequality. When we say that taxes should be equal, we mean that the burden should be proportional. Whether the proportion should be a strict numerical or a relative proportion—

that is, whether the rate should be the same or different—depends on the answer we give to certain fundamental questions. It is perfectly conceivable, for instance, that a truer proportion might be found through a so-called progressive tax, than through what is commonly called a proportional tax. That was the view of Robespierre and the French Convention when it decreed progressive taxation in the following words: "In order to attain a more exact proportion in the division of public burdens which every citizen should support according to his faculties, a graduated and progressive tax shall be established on luxury and property, real as well as personal."<sup>15</sup> In the same way, when we say that the sacrifice should be equal, we mean with John Stuart Mill, "that each person shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his." "Equal" sacrifice is thus merely a rough way of expressing the idea of "proportional" sacrifice. In assuming that "equal sacrifice" necessarily implies that "the intensity of the wants that remain unsatisfied because of the tax" must be equal, these objectors really confound equal sacrifice with arithmetical equality. All that is implied in the doctrine of equal sacrifice is that the pressure must be relatively proportional, not that it must be identically the same. It is the same mistake as to assume that equality of taxation means that every one—rich and poor—should pay precisely the same amount. The amount paid is identical or equal in one sense, and yet such taxation would be grossly unequal in the usual sense

<sup>15</sup> "La Convention Nationale décrète comme principe que, pour atteindre à une proportion plus exacte dans la répartition des charges que chaque citoyen doit supporter en raison de ses facultés, il sera établi un impôt gradué et progressif sur le luxe et les richesses tant foncières que mobilières." Loi du 18 Mars, 1793. In Hélie, *Les Constitutions de la France*, 1880, p. 359.

of the term "equal taxation." Equality as used in taxation does not mean sameness, but relative proportionality.<sup>16</sup>

It makes no difference, therefore, whether we lay the stress on the satisfied or on the unsatisfied wants. The explanation is identical in both cases. Granting the graduation in human wants, a tax which takes away the possibility of satisfying some wants changes the intensity of the last want actually satisfied, just as it in the same way changes the intensity of the next urgent want that remains unsatisfied. We are simply looking at the same fact from two different standpoints. The theory is not altered a whit. If the imposition of a tax makes me abandon my outlay for amusements in order that I may be able to purchase clothing, the intensity of my last want actually satisfied is increased (because the desire for cloth-

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<sup>16</sup> Professor Edgeworth has recently made an attempt to distinguish between equal sacrifice and proportional sacrifice, each of them a sub-division of a larger genus which he calls "like sacrifice." See "The Pure Theory of Taxation," in *The Economic Journal*, vii, 1897, p. 557. From the mathematical point of view this is of course possible. Equal sacrifice would then denote the sacrifice of an absolutely equal amount of utility, proportional sacrifice would denote that of an equal proportion of utility. The distinction is, however, of no practical importance, because the demand for absolutely equal sacrifice in the formal mathematical sense has never, so far as I know, been advanced by any one. Equality in the ordinary sense of the term just as frequently implies relative equality as absolute equality. Webster e. g. defines equality as "agreement in quality or degree." Equality in degree, or relative equality, is precisely what Edgeworth calls proportional sacrifice. Not only has "equal sacrifice" in discussions in taxation always meant proportional sacrifice, but Edgeworth himself in the latter portion of his essay uses the terms interchangeably, telling us expressly that "it has seemed best, as most agreeable to usage, to employ the term "equal" generally, covering *proportional* as well as *equal* in the proper sense." *Op. cit.*, p. 566, note 1.

ing is more pressing than that for amusements), but the intensity of my next urgent want that remains unsatisfied is equally increased, because I now cannot afford amusements, while formerly I could afford amusements but could perhaps not afford more expensive enjoyments.

This, then, was the theory of progressive taxation resting on equality of sacrifice. A number of recent Dutch writers, who had already in the seventies accepted the final-utility theory of Jevons, applied his theory to the doctrine of progressive taxation just discussed. According to that more modern nomenclature the theory might be put as follows:<sup>17</sup>

Every satisfaction of human wants implies the existence of utility in the commodity which provides this satisfaction. The value of any commodity, however, is nothing but the expression of our estimate of its marginal or final utility, *i. e.*, the serviceableness of the last usable or marginal increment of the supply to satisfy some particular wants. Since the intensity of our wants and therefore their marginal or final utility decreases as we ascend from the lower or more pressing to the higher or less urgent wants, and since larger incomes afford the means of satisfying these less intense wants, a strictly proportional tax would involve smaller sacrifices in the case of the larger incomes. Strict equality of sacrifices in the sense of relatively proportional diminution of burden thus involves progressive taxation. It is a well established fact, however, that the number of wants increases as their intensity diminishes. The urgent wants of existence are very pressing indeed, but limited in number; the less urgent wants continually increase in number and variety with wealth and civilization. After a certain point,

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<sup>17</sup> For a fuller statement of the modern theory of marginal utility, see Seligman, *Principles of Economics*, ch. 12.

therefore, the differences between the intensity (and the marginal utility) of wants diminishes with the increase of their number and area, until finally when we come to the very large incomes the possibility of satisfying almost all wants becomes equal. Hence while taxation should be progressive, the rate of progression should itself diminish until ultimately the tax becomes proportional.

The necessity of progressive taxation resting on this gradual decrease of the marginal utility of wants was worked out arithmetically by some of the Dutch authors by constructing the following tables. Each individual is assumed to have an income which he values at a certain percentage; *i. e.*, the marginal utility of each successive grade of income diminishes as the income increases. In order to ascertain the enjoyment of satisfactions, which would be diminished by a tax, we have simply to multiply the amount of each grade of income by the marginal utility. If, for instance, C had an income of \$3,000, of which the marginal utility of the first \$1,000 was 100 per cent, of the second 95 per cent, and of the third, 91 per cent, he would have this quantity of enjoyment:

\$1,000 at 100 per cent.....	\$1,000
\$1,000 at 95 per cent.....	950
\$1,000 at 91 per cent.....	910
	<hr/>
	\$2,860

In this way we may construct the following table:

A has an income of \$1000 { which he values for the satisfaction of his wants at }	100 % { The whole is then worth to him }	\$1000
B " additional 1000 " " 95 " "	95	1950
C " " 1000 " " 91 " "	91	2860
D " " 1000 " " 87.5 " "	87.5	3735
E " " 1000 " " 84.3 " "	84.3	4578
F " " 1000 " " 81.3 " "	81.3	5391
G " " 1000 " " 78.4 " "	78.4	6175

Now suppose a strictly proportional tax is imposed. If the tax is three per cent, then the amounts paid would be:

A	\$30, whose marginal utility is	100	% i.e., \$30.00.	This is 3.	% of the total \$1000
B	60,	" " 95	" 57.00.	" 2.923	" " 1950
C	90,	" " 91	" 81.99.	" 2.863	" " 2860
D	120,	" " 87.5	" 105.00.	" 2.811	" " 3735
E	150,	" " 84.3	" 126.45.	" 2.762	" " 4578
F	180,	" " 81.3	" 146.34.	" 2.714	" " 5391
G	210,	" " 78.4	" 164.64.	" 2.666	" " 6175

The ratio of sacrifice to enjoyment is, as we see, three per cent in the case of A, 2.92 in the case of B, and 2.67 in the case of G. In other words, we have an inequality of sacrifice, produced by a seeming equality or proportion in the tax. In order to bring about a real equality, so that the ratio of sacrifice to enjoyment may be three per cent in each case, it would be necessary to tax<sup>18</sup>

A, on his \$1,000.....	3.	%
B, " 2,000.....	3.0790	"
C, " 3,000.....	3.1428	"
D, " 4,000.....	3.2014	"
E, " 5,000.....	3.2584	"
F, " 6,000.....	3.3155	"
G, " 7,000.....	3.3755	"

In other words, in order to produce equal sacrifice we must have a progressive rate of taxation.

Thus far had the Dutch economists gone. The arithmetical proof seemed to be complete. The logical necessity of progressive taxation as an outcome of the equal-sacrifice theory, or the marginal utility theory, seemed to be put on absolutely secure mathematical foundations. It was reserved, however, for another Dutch writer to use the same mathematical arguments in order to overthrow

<sup>18</sup> The upper figures are those of Bok, *De Belastingen in het Nederlandsche Parlement van 1848-1888*, (1888), p. 177. The lower table is taken from Cohen-Stuart, *Bijdrage tot de Theorie der progressieve Inkomenbelasting*, 1889, p. 110, who makes a slight correction in the figures of Bok.

the conclusion. In a recent and most ingenious work, which will be discussed more fully in the historical appendix, Cohen-Stuart shows that the whole elaborate system of computation is erroneous, and that progressive taxation is by no means a logically necessary conclusion from the assumed premises of a decrease in final utility.

It is perfectly possible, in other words, to construct tables which would lead not to progression, but to proportion and even to regression, although in each case we might assume that the successive increment of income is worth less to the owner.

For instance :

A	has an income of \$1000	{ which he values at }	100.	% { The whole is then worth to him }	\$1000
B	" additional 1000	" 95.	"	"	1950
C	" "	1000 " 93.8	"	"	2888
D	" "	1000 " 93.	"	"	3818
E	" "	1000 " 92.41	"	"	4742

If the tax is three per cent, then the amount paid would be:

A	\$ 30	{ which he values at }	100.00 % i.e., \$30.00. This is 3. % of the total \$1000
B	60	" 95. "	57.00. " 2.923 " " 1950
C	90	" 93.8 "	84.42. " 2.923 " " 2888
D	120	" 93. "	111.60. " 2.923 " " 3818
E	150	" 92.41 "	138.61. " 2.923 " " 4742

In order to make the ratio of sacrifice to enjoyment three per cent in each case, it would be necessary to tax all the others 3.079 per cent, that is, to tax all the others *proportionally*.

Finally, let us take a third case :

A	has an income of \$1000	{ which he values at }	100.	% { The whole is then worth to him }	\$1000
B	" additional 1000	" 80.	"	"	1800
C	" "	1000 " 77.	"	"	2570
D	" "	1000 " 76.4	"	"	3334
E	" "	1000 " 75.6	"	"	4090
F	" "	1000 " 75.	"	"	4840

If the tax is three per cent, then the amounts paid would be:

	A \$30 { which he values at }	100.0 % i.e., \$30.00.	This is 3. % of the whole \$1000
B 60	" 80. "	48.00. "	2.667 "
C 90	" 77. "	69.30. "	2.666 "
D 120	" 76.4 "	91.68. "	2.750 "
E 150	" 76.5 "	113.40. "	2.772 "
F 180	" 75. "	135.00. "	2.790 "

In order to make the ratio of sacrifice to enjoyment three per cent in each case, it would be necessary to tax

A on his \$1,000.....	3. %
B " 2,000.....	3.375 "
C " 3,000.....	3.333 "
D " 4,000.....	3.273 "
E " 5,000.....	3.247 "
F " 6,000.....	3.226 "

That is, if we omit A, equality of sacrifice could be attained only by taxing the larger income at a *lower* rate.

The objection might be made that there is still a progression from A to B. But Cohen-Stuart explains this by showing that it is due to an error in the assumption. It is assumed that the first \$1,000 will have a marginal utility of 100 per cent. This is plainly erroneous. For if the last \$30 paid on a tax have a marginal utility of 100, the marginal utility of other parts of the \$1,000 must naturally be more than 100. And if we assume that the marginal utility of the whole \$1,000 is 100, then the marginal utility of some parts must be less, and of others more, than 100; since there can be no such sudden jumps as from \$1,000 to \$2,000, etc. This would obviously be true of every successive \$1,000. Thus if we assume that the average marginal utility differs from the marginal utility of the portion subtracted as a tax, we could construct a table of average marginal utilities somewhat like the following:

A has \$1000 income with an average marginal utility 100 % = total \$1000
B has an add'l \$1000      "      "      "      45 " = " 1450
C      "      1000      "      "      "      37 " = " 1820
D      "      1000      "      "      "      33 " = " 2150
E      "      1000      "      "      "      31 " = " 2460
F      "      1000      "      "      "      29 " = " 2750

If we again assume a proportional tax of three per cent, the amounts paid would be:

A \$30 whose marginal utility is 50 % = \$15 i.e. . . 1.5 % of \$1000
B 60      "      "      40 " = 24      " . . 1.655 " " 1450
C 90      "      "      35 " = 31.50 " . . 1.733 " " 1820
D 120      "      "      32 " = 38.40 " . . 1.786 " " 2150
E 150      "      "      30 " = 45 " . . 1.829 " " 2460
F 180      "      "      28.5 " = 51.30 " . . 1.865 " " 2750

In order to make the relation between sacrifice and enjoyment equal for all, *i. e.*, one and five-tenths per cent, it would be necessary to tax:<sup>19</sup>

A.....3. %.....on his.....\$1,000
B.....2.719 "....." ..... 2,000
C.....2.600 "....." ..... 3,000
D.....2.520 "....." ..... 4,000
E.....2.460 "....." ..... 5,000
F.....2.412 "....." ..... 6,000

Here, then, we have a continually decreasing rate. This would be regressive taxation of the purest type.

It may be said that all these tables are arbitrary. This may be granted. Yet, at all events, they do prove that progressive taxation does not follow as a logical necessity simply from the fact that greater incomes are worth relatively less than smaller ones because of the decrease in the intensity of our wants.

Thus the whole elaborate mathematical proof of progressive taxation turns out to be no proof at all. According as we choose our figures we can prove the possibility of progressive, or of proportional, or of regressive taxa-

<sup>19</sup> Cohen-Stuart. *Op. cit.*, pp. 112-113.

tion. Hence the simple fact of the gradual decrease of marginal utility does not necessarily lead to progressive taxation, nor on the other hand does it necessarily lead to proportional taxation. From the equality-of sacrifice doctrine of itself we can not deduce any mathematically exact scale of taxation, whether progressive or anything else.

It is true that Cohen-Stuart later attempts to prove that a hypothetical curve representing a decrease in marginal utility in all probability corresponds to the true curve, and that this hypothetical curve leads to progressive taxation. But as we shall see more fully in the historical appendix number five below, his methods, though extremely ingenious, are not entirely convincing, and he is virtually unable to overcome the arguments with which he has himself demolished the older theory.

This brings us to the very core of the objection to the equal-sacrifice theory, regarded as the paramount consideration in the construction of any definite rate of progression. The imposition of "equal sacrifices" on all taxpayers must always remain an ideal impossible of actual realization. Sacrifice denotes something psychical, something psychological. A tax takes away commodities which are something material, something tangible. To ascertain the exact relations between something psychical and something material is impossible. No calculus of pain and pleasure can suffice, for no attempt to reduce the heterogeneous to the homogeneous can ever succeed.

Even assuming, however, that this could be done, the case for the advocates of equal sacrifice would not be much better. The sacrifice occasioned by a tax is only one factor in the problem, and may be a minor factor. Two men may have the same income, which they may value at very different rates. The one may be a bachelor,

the other a man with a large family dependent on him; the one may be well, the other ill; the one may have simple tastes, the other extravagant leanings; the one may be a miser, the other a spendthrift; the one may earn his income, the other may receive it as a gift; the one may spend his income in a village where prices are low, the other may be compelled to spend it in a metropolis where prices are high. The variations in each particular case are numberless. It is quite impossible to say whether the identical tax on people of identical income or property will produce the same relative pressure, *i. e.*, occasion an equal (that is, a proportional) sacrifice. Since sacrifice bears no definite relation to the amount of commodities, it is just as conceivable that in individual cases a regressive tax may produce just as much, or as little, equality of sacrifice as a proportional or a progressive tax. The attempt to ascertain a mathematical scale of progression, so as to avoid a charge of arbitrariness, is foredoomed to failure. The equality-of-sacrifice theory, taken by itself, cannot lead to any fixed rate of taxation, whether proportional or graduated.

A supposed way out of the difficulty has recently been outlined. One of the leaders of the Austrian school of pure economics, Professor Sax, has boldly maintained that taxation has nothing at all to do with equal sacrifice, and that progressive taxation may be upheld on what he calls purely economic grounds, apart from questions of justice or ethics. This theory is deemed by its author so important and conclusive that it deserves a fuller discussion.<sup>20</sup>

Sax bases his very diffusely expressed, but acutely rea-

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<sup>20</sup> It will be found in his book, *Grundlegung der theoretischen Staatswirtschaft*, 1887, esp. §§ 81, 82; and repeated in his essay, "Die Progressivsteuer," in the first number of the Austrian *Zeitschrift für Volkswirtschaft, Socialpolitik und Verwaltung* (1892).

soned, exposition on the assertion that the problems of taxation have nothing to do with ethical, but only with purely economic, considerations; and that therefore the ideas of justice and of equal sacrifice are entirely irrelevant. He divides all human wants into individual and collective. Every person has wants that attach to him simply as an individual; but he also has wants that arise from his political association with other men. It is with these "collectivistic"<sup>21</sup> wants that the science of finance has to deal. The state alone can satisfy the collectivistic wants; and in order to make it possible for the state to satisfy these wants, the individual must support the state. This is the basis of taxation.

The problem of taxation is: How much of a man's stock of goods shall he devote to these collective wants? This must depend, says Sax, on the marginal utility of the goods taken from the individual. That is to say, our wants vary in intensity, ranging from the most pressing wants or those for absolute necessities of life—through several grades until we reach pure luxuries. The higher

<sup>21</sup> It may be observed, in passing, that Sax's nomenclature is not quite exact. There is, indeed, a distinction between individual and collective wants, but it is not the one mentioned by Sax. The individual wants are indeed those that attach to one as an individual; but opposed to these are the social or collective wants which can be satisfied only through some form of union with other individuals. There must be an association or collection of individuals, and the wants are hence termed social or collective wants. These are satisfied by all the various forms of modern social and collective organizations. On the other hand we must distinguish between the private and the public wants of the individual. Private unions are voluntary, and take in only portions of society. Organized society as a whole is called the state, and membership in the state is compulsory. The wants which can be satisfied by the state alone are public wants. All public wants are necessarily social or collective wants; but all collective wants are not necessarily public wants. The science of finance has to deal only with public wants, not with collective wants in general.

we go in the stock of goods at our disposal, the greater, to a certain point, will be the decrease in the intensity of our wants.<sup>22</sup> The value of any particular quantity of goods is therefore an expression of its marginal utility, that is, the serviceableness of the last usable portion to satisfy some particular wants. The problem of equal taxation is to take away from individuals such quantities of goods that each individual will value the amount taken from him just as highly as his neighbor will value the amount taken from him.<sup>23</sup> In other words, the marginal utility of the commodities taken must be equal. This he calls the economic principle of equivalence.<sup>24</sup> But as we have seen that the marginal utility varies inversely as the amount, the marginal utility of the commodities taken from two unequally wealthy individuals can be equal only when we take not the same, but a relatively larger, proportion from the wealthier individual. If we took the same proportion from two unequal stocks of goods, A and B, the marginal utility of the amount taken from the smaller stock A would be far greater than the marginal utility taken from the larger stock B. In order to make the marginal utility equal we must take a larger proportion from B than from A. In other words, we must have

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<sup>22</sup> "Die Progression der Intensitätsabnahme der Bedürfnisempfindungen," as Sax puts it. Cf. *Grundlegung der theoretischen Staatswirtschaft*, p. 511. Sax does not use the words "marginal utility" in his book, although he does employ them in his subsequent essay.

<sup>23</sup> "Die Aufgabe der Besteuerung ist, aus den Privatwirtschaften Güterquanten den Collectivbedürfnissen zuzuführen welche demmassen verschieden bemessen sind, dass jedes Wirtschaftssubjekt nach dem thatsächlichen Stande des Individualwertes innerhalb seines Bereiches das seinige eben so hoch werthet wie jedes Andere der von ihm eingeforderten Güter" *Ibid.*, p. 514.

<sup>24</sup> "Äquivalente. Dieses eine Wort bedeutet die relative Steueraustheilung *in nuce*." *Zeitschrift für Volkswirtschaft*, etc., p. 90.

progressive taxation up to a certain point.<sup>25</sup> "Equality of values taken," not "equality of sacrifice," is the purely economic basis of taxation.

Although Sax heralds this as a great discovery, we may be pardoned for believing that its value for the purposes of the theory of progressive taxation has been considerably exaggerated.

In the first place the doctrine of the gradation of wants had long since been elaborated by the Austrian economists; the final-utility theory of Jevons had been applied to the problems of taxation by the Dutch economists; and lastly, the formulation of the whole doctrine had been developed by Meyer without any suspicion on his part that he had thereby made any specially new dis-

<sup>25</sup> "Die Progression der Intensitätsabnahme kann nur innerhalb gewisser Grenzen merklich sein. Ist man aber einmal bei den Bedürfnissen von absolut sehr niedrigen Stärkegraden angelangt, so können weitere Abstufungen nur mehr an sich höchst geringe Differenzen ergeben die sich der Messbarkeit entziehen." *Grundlegung*, p. 511.

Professor James, in his review of Sax's book in the *Political Science Quarterly*, v. p. 168, gives a partially erroneous account of Sax's meaning. James says, "the state may, therefore, for a given service, take very different sums from different private economies, because the final utility of the service varies with the amount of goods." This, however, is not Sax's meaning. If individuals were to pay taxes in accordance with the final utility of the services, we should practically be going back to the give-and-take theory of taxation which Sax expressly disclaims. It is not the final utility of the state service, but the final utility of the commodities taken away in the shape of taxes, which Sax emphasizes. The final utility, or value, of the state services has nothing to do with the question. It is the final utility of the commodities that the individual pays to the state which must be equal; and it is because the final utility of these varies inversely as the whole stock of goods that Sax demands progressive taxation. We must be careful not to confuse the two notions, as does Professor James. Sax himself protests against a similar confusion of which an Austrian economist is guilty. Cf., "Die Progressivsteuer," p. 91, note.

covery. Now the only difference between the equal sacrifice or marginal utility theory of his predecessors and the "equivalence" theory of Sax is a mere difference of words. The equal-sacrifice theory says that the tax must take away such amounts that the resulting pressure or the sacrifice of enjoyments may be relatively proportional; the "equivalence" theory says that taxation must take away relatively proportional amounts. But the taking away or giving up of anything involves a pressure or a sacrifice, whether the sacrifice be voluntary or compulsory. Hence, "equality of values taken" implies an "equality of sacrifice" to the individual.

In fact, a "purely economic" theory of taxation is as impossible as a "purely economic" theory of value, if it is meant that "pure economics" can make abstraction of psychological and therefore of ethical considerations. As soon as we introduce the conception of human wants and the means of satisfying these wants, we are dealing with questions of sacrifice of enjoyments. Equality of taxation, therefore, connotes an ethical problem, in the same sense that the general law of value and price connotes an ethical problem. The mediaeval theory of *justum pretium*, with its modern successors in the theories of fair wages, of reasonable railway rates, of trust prices, etc., shows how indissolubly are bound up the problems of ethics and economics. The problems of taxation are of no different kind. The situation is not altered in the least by regarding taxes as the satisfaction of collectivistic wants. If I have to spend money to support my relative, it is no less a sacrifice because these duties may be regarded as the satisfaction of individualistic wants, *i. e.*, wants which primarily affect me in the individual relations of my family. All the more must the compulsory subtraction from my wealth by a tax be declared a sacrifice,

even though it be regarded as the voluntary satisfaction of collectivistic wants. Hence, whether we call it the purely economic theory or the ethical theory of public finance is immaterial. The "equivalence" theory of taxation is simply another way of putting the marginal utility or equal-sacrifice theory. They do not oppose each other, they do not even supplement each other; correctly understood they are simply two distinct methods of explaining the same thing in slightly different words. It is impossible to take away relatively proportional values without inflicting relatively proportional sacrifices.

So far has the modern theory of progressive taxation gone. But if, as we have seen, the equality-of-sacrifice theory taken by itself cannot lead to any fixed rate of progression, must we then range ourselves with those who maintain that progressive taxation is illogical and unjust; and that there are no substantial arguments in its favor, while the opposing arguments are numerous and convincing? Is progressive taxation economically justifiable or not? Is it theoretically sound and practically expedient? These are the problems to which we must address ourselves after taking up somewhat in detail the various advocates of taxation according to faculty.

## HISTORICAL APPENDIX III.

### THE FACULTY THEORY LEADS TO PROPORTIONAL TAXATION

The earliest advocates of the faculty theory were concerned chiefly with a reform of obviously unjust systems of taxation. Their efforts were directed to bringing about some semblance of proportionality as over against the existing regressive systems. Thus we find the faculty theory at first used as a defense of proportion.

One of the earliest writers on taxation was Bodin. Bodin, as is well known, was in favor of taxation only as a last resort in extraordinary exigencies, since in his opinion the state could and should support itself in other ways. In so far, however, as taxes are necessary, justice should be observed; and justice consists in apportioning taxation according to family<sup>1</sup>. But faculty seems to Bodin simply to denote means or property.<sup>2</sup> He does not analyze the matter any further.

In the same way many of the publicists of the seventeenth century laid down the principle that the burdens of taxation should be in proportion to the faculty, or the powers, of each.<sup>3</sup> The Dutch writer, Boxhorn, expressly

<sup>1</sup> "Sunt igitur ea vectigalia, si modo necessaria, probanda quae in omnes ordines *pro singularum facultatibus exaequantur.*" Bodinus, *De Republica*, 1577, lib. vi.

<sup>2</sup> "Pro cuiusque opibus ac fortunis." In the French edition of 1577, we read: "Que chacun debuoit porter, eu égard aux biens qu'il auoit." *Les six Livres de la République*, p. 644.

<sup>3</sup> Thus Botero says in his *Della Ragione di Stati*, 1589: "Proprium est subditorum . . . per facultates principes magistratumque juvare." —Bocerus, *De Jure Collectarum*, 1617, "Deinde quantitas illa distribuenda est *pro viribus* singulorum tum provinciorum tum civitatum etiam hominum." —Besold, *De Acerario*, p. 619: "Tributa ergo pro modo census et facultatum a singulis pensitabantur"—Klock, *De Con-*

tells us that the tax should be proportional to property in order that the burdens and sacrifices might be equally shared by all.<sup>4</sup>

Among English writers, one of the first to uphold this theory was Sheridan. Sheridan, however, leaves us in doubt whether he finds taxable ability to consist in property or in expenditure. He holds that "all subjects, as well the meanest as the greatest, are alike concerned in the common safety, and should therefore, according to their respective interests of riches or enjoyments, bear the charge in equal proportions."<sup>5</sup> Again, at the beginning of this century, Frend expressed the common view in saying that "taxation is equitable when each member is taxed in proportion to his means of paying the tax." He goes on to explain that "the means, which an individual has to pay the demands of the state, must depend on the possession of the sum required by the state, or of property, which will procure that sum."<sup>6</sup> This, he thinks, is the

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*tributionibus*, 1634: "Collecta per aes et librum, hoc est secundum facultatem patrimonii imponi debet . . . ut onera commensurata sint viribus eorum." Cf. Rau, *Finanzwissenschaft*, (5th ed. 1865), § 253; and Neumann, *Die Steuer nach der Steuerfähigkeit*, 1887, p. 550.

"In tributis aequalitatis maxima habenda ratio, quae in eo potissimum versatur, ut par sit eorum ratio ac paria hic onera sentiant, quorum pares in diversis licet rebus positae sitaeque sunt opes."—Boxhorn, *Institutiones Politicae*, lib. i, cap. 10, § 18, no. 9. For Boxhorn's general views on finance, see Laspeyres, *Geschichte der volkswirtschaftlichen Anschauungen der Niederländer*, etc. (1863), p. 239 *et seq.*

<sup>5</sup> "A Discourse on the Rise of Parliament . . . of Taxes, Trade, and of the Interest of England in reference to France. In a letter from a Gentleman in the Country to a Member of Parliament." [By Thomas Sheridan] 1677, p. 146. The book has been reprinted in fac-simile by Saxe Bannister in his *Some Revelations of Irish History*, 1870.

<sup>6</sup> Wm. Frend, *The Principles of Taxation or Contribution according to Means*, etc., 1804, pp. 33-34.

In an earlier work devoted to a criticism of Pitts' income tax

same as saying that "taxation, to be equitable, must leave the subjects in the same relative situation to each other, in which they were the moment before the tax was paid."<sup>7</sup> Frend is thus the real founder of the leave-them-as-you-find-them theory of taxation.

Among modern writers who have partly upheld the faculty theory of proportional taxation, the most important is Parieu. Parieu maintains that the "social-dividend" theory, as he terms it, would logically lead to the "most absurd practical consequences and the most shocking inhumanity."<sup>8</sup> He considers it necessary to limit that theory by the doctrine of equality of sacrifice. The doctrine of equality of sacrifice, however, does not seem to him in itself a thoroughly safe doctrine, because it leads to progressive taxation, or "tends irresistibly to social levelling as the ideal."<sup>9</sup> Parieu comes to the rather superficial conclusion that it is possible to combine the social-dividend and the equality-of-sacrifice theories, so as to make of them a compound which is nothing else than purely proportional taxation.<sup>10</sup> In other words, Parieu opposes the give-and-take theory as inadequate, but objects to the sacrifice theory only because it leads to progressive tax-

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scheme, Frend puts the same principle in virtually identical language. See Wm. Frend, *The Principles of Taxation*, 1709, p. 11.

<sup>7</sup> *Ibid.* p. 40. Walker, *Political Economy*, § 590, thus errs in ascribing the origin of this principle to the author of the *Edinburgh Review* article.

<sup>8</sup> "Il faut arriver jusqu'aux conséquences pratiques les plus absurdes et aussi à l'inhumanité la plus choquante par la négation absolue de tout secours apporté à la situation de l'indigence et du malheur." Parieu, *Traité des Impôts*, p. 30 of 2nd ed. (1866).

<sup>9</sup> "La théorie de l'égalité des sacrifices paraît placée sur la pente irrésistible qui conduit au nivelingement social comme type de perfection." *Ibid.*, p. 26.

<sup>10</sup> "Il semble possible de rapprocher la théorie du contrat onéreux et celle de l'égalité des sacrifices dans cette idée moyenne et simple qui proportionne l'impôt aux biens particuliers." *Ibid.*, p. 31.

tion, which seems to him socialistic.<sup>11</sup> That is, he objects to a premise, not because of the untenability of the premise, but because of the danger of the conclusion. This is not a very logical proceeding.

On the other hand, a far larger number of the opponents of the benefit theory modify their demand for proportional taxation by the introduction of the idea of the minimum of subsistence, or even of the so-called clear-income idea. Although they profess to advocate proportional taxation, they in reality favor degressive taxation. Let us study them a little more closely.

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<sup>11</sup> "La théorie de l'impôt progressif paraît partir de cette idée que la société doit chercher à réaliser par l'impôt une égalité de situation, non relative à la masse des biens et aux propriétés acquises, mais absolue pour la personne de chaque citoyen." Parieu, *op cit.*, p. 37.

## HISTORICAL APPENDIX IV.

### THE FACULTY THEORY LEADS TO DEGRESSIVE TAXATION.

The chief representative of this tendency is John Stuart Mill. Although often regarded as the true originator of the equality-of-sacrifice doctrine, Mill was not really the first to advance the idea. It is only the deplorable ignorance of the history of the science of finance among so many modern writers that could have ascribed to Mill doctrines which had been expounded long before him. Mill, however, was indeed the first to draw from this principle the conclusion of degressive taxation. Mill strongly objects to the *quid-pro-quo* theory, and lays down his general principle in the following words: "As in a case of voluntary subscription for a purpose in which all are interested, all are thought to have done their part fairly when each has contributed according to his means, that is, has made an equal sacrifice for the common object; in like manner should this be the principle of compulsory contributions; and it is superfluous to look for a more ingenious or recondite ground to rest the principle upon."<sup>11</sup> In another place he says: "Equality of taxation as a maxim of politics means equality of sacrifice. It means apportioning the contribution of each person toward the expenses of government so that he shall feel neither more nor less inconvenience from his share of the payment than every other person experiences from his."

Mill, however, thinks that the principle cannot lead to progressive taxation. The statement that "to take £100 from £1,000 is a heavier impost than £1,000 taken from

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<sup>11</sup> *Principles of Political Economy*, book v, chap. ii, § 2; ii, p. 398, of Appleton's (1880) edition.

£10,000, seems to me too disputable altogether, and even if true at all, not true to a sufficient extent to be made the foundation of any rule of taxation. Whether the person with £10,000 a year cares less for £1,000 than the person with only £1,000 a year cares for £100, and if so, how much less, does not appear to me capable of being decided with the degree of certainty on which a legislator or a financier ought to act." Mill thinks that the portion of truth which the doctrine contains "arises principally from the tax which can be saved from luxuries, and one which trenches in ever so small a degree upon the necessities of life or what is conducive to the support or to the comfort of existence." Hence Mill concludes that the most equitable plan is to exempt a certain minimum of income, but to tax everything else above that proportionally—a theory which he erroneously seems to think originated with Bentham.

To this argument the rejoinder is obvious that the degrees of income which are "conducive to the support or to the comfort of existence" vary with the standard of life, and that according to Mill's own theory no really equitable fixed minimum of subsistence can be determined. If equality of sacrifice is the only defense of the exemption of the minimum of subsistence, we could not stop with this; for human wants shade into each other by imperceptible gradations. It is worth mentioning also that Mill strongly favors a progressive rate in the case of legacy and inheritance taxes;<sup>2</sup> and that he advocates differentiation in the rate of the income tax, according as the income

<sup>2</sup> In the first edition of his *Principles* Mill puts this as follows: "The principle of graduation (as it is called), that is, of levying a larger percentage of a large sum, though its application to general taxation would be a violation of first principles, is quite unobjectionable as applied to legacy and inheritance duties." Book vi, ch. ii, § 3. In the second edition, Mill changes the emphasis: "The principle

is a life income, or a perpetual income. It is remarkable that in espousing the latter demand Mill advances precisely the same argument which he refuses to accept in the discussion of graduation. "It is not because the temporary annuitant has smaller means," says Mill, "but because he has greater necessities, that he ought to be assessed at a lower rate." Yet the more urgent demands on the income of the life annuitant cannot be fixed by the government with any more "certainty" than the more urgent demands on the income of the poorer man. What is sauce for the goose is sauce for the gander. The reasoning is exactly the same. It seems illogical to uphold differentiation of taxation and to oppose progression of taxation. Moreover, although Mill is such a strong advocate of what he thinks is proportional taxation, it has been pointed out that he is really abandoning the whole contention. As Faucher truly says, "Exemption of any revenue is simply the entering wedge of progressive taxation."<sup>3</sup> It is because this seems to him inevitable that Faucher objects to all income taxation. For progressive taxation, he thinks, reduces all to a common level of misery.<sup>4</sup>

The earliest important German writer to deduce degrees-

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of graduation, though its application to general taxation would be, in my opinion, objectionable, seems to me both just and expedient as applied to legacy and inheritance duties."

<sup>3</sup> "On pose le premier jalon de l'impôt progressif dès que l'on affranchit de la taxe sur le revenu certaines classes de contribuables." Léon Faucher, "De l'Impôt sur le Revenu," in his *Mélanges d'Economie Politique et de Finance*, i (1856), p. 57.

<sup>4</sup> "Oui, l'impôt progressif est au bout de l'impôt sur le revenu. Il en représente la fatalité. Aveugle qui ne la voit pas et insensé qui la dissimule . . . L'idéal de la loi agraire se trouve réalisé, car l'impôt étend alors sur les citoyens un niveau commun de misère." *Ibid.*, p. 59.—Cauwès, *Précis du Cours d'Economie Politique*, ii, p. 572, is in error in terming Faucher a partisan of progressive taxation.

sive taxation from the faculty theory was Rau. Rau confesses that in general a certain sum of money has a higher value for its possessor according as it forms a larger part of the amount available for expenses. From this he draws the remarkable conclusion that all will be able to give up a proportional part of their property with equal sacrifices. Proportional taxation is the most equitable and just.<sup>5</sup> In another part of his work, however, Rau explains that he means a proportional taxation of clear income only, by which he understands the exemption of the minimum of subsistence; and this, he thinks, is fixed by the normal standard of life.<sup>6</sup> Since this is exceedingly difficult of exact ascertainment, Rau has no objection to a tax on the whole income, which is graduated up to a certain point, in order to effect a virtually proportional taxation on the clear income. Later on, however, Rau is inconsistent enough to confess that the theory of sacrifice may logically lead to progressive taxation, which he rejects because of its dangerous tendencies.<sup>7</sup>

Somewhat later, another German writer went into the subject a little more fully. Umpfenbach is a stanch op-

<sup>5</sup> "Mann kann annehmen, dass eine gewisse Geldsumme für den Besitzer einen desto höheren Werth hat, einen je grösseren Theil seines ganzen verwendbaren Gütervorrathes sie ausmacht und einen je grösseren Theil des gesamten ihm zu Gebote stehenden Gütergenusses sie folglich entspricht . . . Es werden daher Alle einen gleichvielsten Theil (Quote) der zu ihrer Verfügung stehenden Gütermenge ungefähr gleich leicht oder schwer abgeben können." Rau, *Finanzwissenschaft*, 1832-1837, § 253. 5th ed. (1864), iii, part 1, p. 395.

<sup>6</sup> "Es ist gerecht und zweckmässig dass nur der Theil der ganzen Einnahme in Anschlag gebracht wird der den mittleren standesmässigen Unterhaltsbedarf des Arbeiters und seiner Familie übersteigt, sowie überhaupt der mit einem Einkommen nothwendig verknüpfte Kostenaufwand in Abrechnung kommen muss." *Ibid.*, § 391; iii, part 2, p. 170.

<sup>7</sup> *Ibid.*, § 400; iii, part 2, 195.

ponent of the give-and-take theory, and maintains that the only principle is to tax individuals according to their "economic capacity to pay."<sup>8</sup> But this, he maintains, means proportional, not progressive, taxation, because in the eyes of the state equal revenue connotes equal faculty, for the reason that equal income yields equal enjoyment. The state has nothing to do with the subjective impressions of the taxpayer; how far a man's income may suffice for the satisfaction of his comforts and luxuries is purely a subjective matter. The state has no right to inquire into this unless we are willing to say that it is the function of the state to level inequalities of fortune. The whole theory of progressive taxation is simply a result of false sentimentalism.<sup>9</sup> The only really legitimate kernel of progressive taxation consists in the exemption of a definite minimum of existence, because it is virtually impossible for the state to tax this.<sup>10</sup>

The only other German writers of any importance who advocate the degressive theory are those who have been influenced chiefly by Mill. Both Bergius and Pfeiffer, the authors of bulky volumes on public finance, follow

<sup>8</sup> "Die ökonomische Steuerfähigkeit."

<sup>9</sup> "Für die Finanzpolitik kann auf Grund menschlich allgemeiner Werthschätzung als Regel nur gelten, dass gleich grosses Einkommen gleich grosse Steuerfähigkeit hat, weil es in seiner Verwendung gleich grossen Genuss gewährt. Regelmässig verschieden, was dann die Besteuerungspolitik völlig unbedacht lässt, ist die Genussrichtung; regelmässig übereinstimmend, worauf die Besteuerung fußt, ist die Genusshöhe . . . Die Finanz lässt durch die Besteuerung von jeder gleichen Genusshöhe gleichviel wegnehmen; aber sie ist nicht dazu da, um mit Hilfe und auf Kosten der Besteuerung der Subjectivität dieser oder jener Einzelnen zu einer opulenteren Genusshöhe des Auskommens zu verhelfen, als deren Einkommen entspricht." Umpfenbach, *Lehrbuch der Finanzwissenschaft*, 1859. Cf. 2nd ed. (1887), § 82, pp. 166-167.

<sup>10</sup> "Mit Abzug des auf jedes Einkommen treffenden Existenz-minimums steht die einzige zulässige Steuerprogression fest." *Ibid.*, p. 173.

Mill almost word for word.<sup>11</sup> Pfeiffer, however, in demanding the exemption of the minimum of subsistence, desires that an allowance be made for the number of children. Vocke also finds the limit of progression to consist in the exemption of the minimum of subsistence.<sup>12</sup> And Helfferich takes virtually the same position.<sup>13</sup>

The advocates of degressive taxation as an outcome of the faculty theory of taxation are therefore very few in number. It is evident that their position is not a strong one, and that their attitude is based on a half-way reasoning. It is not surprising, then, that the great majority of writers of this school should go the whole length and plead for progression as a necessary outcome of the faculty theory of taxation. With this far larger wing we have now to deal.

<sup>11</sup> Bergius, *Grundsätze der Finanzwissenschaft*, 1865. Cf. esp. 2nd ed. (1871), pp. 407-410.—Pfeiffer, *Die Staats-Einnahmen*, 1866, i, p. 80; ii, pp. 26-34, 41-45, 538.

<sup>12</sup> W. Vocke, *Die Abgaben, Auflagen und die Steuern*, 1877, p. 473.

<sup>13</sup> Helfferich, "Die allgemeine Steuerlehre" in Schönberg's *Handbuch der Politischen Oekonomie*, 3rd ed. 1891, iii, p. 136.

## HISTORICAL APPENDIX V.

### THE FACULTY THEORY LEADS TO PROGRESSIVE TAXATION.

The advocates of this doctrine are so numerous that it will conduce to clearness to divide this appendix into six parts, taking up first the earlier and especially the eighteenth century writers, then dealing in turn with the development during the nineteenth century in France, England, Germany, and Holland, and closing with a discussion of the most recent history in America and Great Britain.

The earliest statement of this principle is found in the first essay of Guicciardini, at the end of the sixteenth century.<sup>1</sup> Equality of taxation, we are told, consists not in everybody's paying the same rate, but in the payments being so arranged as to impose the same burden on all.<sup>2</sup> If both a poor man and a rich man pay to the state one tenth of their incomes respectively, even though the rich man's one-tenth is far more than that of the poor man, the poor man, in order to pay his one-tenth undergoes a far greater sacrifice than the rich man in paying his.<sup>3</sup> For expenditures are of three classes, necessities, comforts and luxuries. A man with fifty ducats income cannot even satisfy his necessities, and if he pays

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<sup>1</sup> For the essay of Guicciardini, see above, p. 135.

<sup>2</sup> "La egualità di una gravezza non consiste in questo, che chiascuno paghi per rata tanto l'uno quanto l'altra, ma che il pagamento sia di sorte che tanto s'incomodi l'uno quanto l'altro." *Op. cit.* p. 355.

<sup>3</sup> "Quando un povero paga in commune una decima delle entrate sue e un ricco paga una decima ancora che la decima del ricco getti più che quella del povero, pure multe più si disordina il povero di pagare la sua decima che il ricco la sua . . ." *Ibid.*

a tax he must do without some absolute necessities; he who has one hundred to one hundred and fifty can pay twelve or fifteen per cent in taxes, and will give up only comforts. But the recipient of from two hundred and fifty to three hundred ducats income can pay as much as one-fourth or one-third in taxes, and yet give up only what he would have spent in superfluities or what he would have added to his capital.<sup>4</sup>

Guicciardini, however, soon abandons this tack in order to take the more frankly socialistic attitude.<sup>5</sup>

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<sup>4</sup> "Le spese che fanno i cittadini sono di tre ragioni: alcune sono necessarie, altre si fanno per commodità, altra sono totalmente superflue. Chi ha di entrata 50 ducati o manco, non può con questa entrata supplire alle necessità e se di questi ha a pagare una decima, bisogna che stremi alle spese che gli sono necessarie; il mediocre, chi ha di entrata 100-150 ducati, he il panno più largo e paga una decima e un quarto, o una decima e mezzo col resecare le spese della commodità, ma non si restringe nelle cose necessarie; colui chi ha di entrata 250-300 ducati, se bene paga il quarto et il terzo delle entrate sue, non solo non restringe le spese necessarie, ma neanche manca alla commodità, spende quelli che avrebbe dissipato in spese superflue o accumulati nella cassa."

<sup>5</sup> See above, p. 135.

### A. *The Eighteenth Century.*

Coming to the eighteenth century, the earliest adherent to the progressive principle based on the faculty theory is the German Councillor Charles of Bayreuth, who wrote a treatise in French in 1722.<sup>1</sup> Councillor Charles or Rath Karl, as he was called in Germany, objected to the ordinary property tax because the same rate in the proportional tax would hit a man living in Paris more severely than one living in the country. It must be assumed, says he, that the prince is desirous of increasing the wealth of his subjects and of affording every one an equal facility to enrich himself. A purely mathematical equality in taxation will not suffice. What is needed is a geometrical relation.<sup>2</sup> Accordingly he proposes to divide the population into three classes, arranged according to the estates, for, says he, that which constitutes the wealth of a peasant does not make a nobleman rich, because of the difference in their positions.<sup>3</sup> If we take by

<sup>1</sup> *Traité de la Richesse des Princes et de leurs États et des Moyens Simples et Naturels pour y parvenir.* Par. M. C. C. D. P. d. B., Allemand à Paris, 1722. An account of this is given in the article "Vermögensteuer" in the *Policey-und-Cameral-Magasin von J. H. L. Bergius*, vol ix, 1774, pp. 44-46, from which the following quotations are made. It is fully treated in J. W. von der Lith, *Neue vollständig erwiesene Abhandlung von den Steuern*, 1766, esp. pp. 203-208. I have not been able to find a copy of the French original. It does not seem to be in the National Library in Paris.

<sup>2</sup> "Die Absichten des Fürsten" gehen dahin "die Reichtümer seiner Unterthanen und des Staats zu vermehren, und einem Jedem eine gleiche Leichtigkeit zu verschaffen, sich zu bereichern . . . Eine bloße arithmetische Gleichheit, vermöge welcher Jeder nach dem zehnten Theil seiner Einkünfte geschätzt sei würde keineswegs diejenige Wirkung thun . . . Vielmehr wäre es weit rathsamer beyden Anlagen ein geometrisches Verhältniss zu bestimmen."

<sup>3</sup> "Denn dasjenige was den Reichthum eines Bauern ausmache, mache einen Edelmann nicht reich, weil dieser ein weit mehreres bedürfe um sich in seinem Stande, zu unterhalten, als ein Bauer in dem seinigen."

taxation from a nobleman ten livres from one hundred, which constitute his entire income, we are taking a part of the necessary means of his existence; but if a peasant pays the same amount it takes only his superfluities, which should be the true and only subject of taxation. Furthermore, in each class the same argument would apply, and therefore the rate should be progressive. Accordingly, if we tax the wealthy ten per cent the less wealthy ought to pay only five per cent and so on.<sup>4</sup>

One of the earliest defenders of the same doctrine was Montesquieu, although his argument is not uniformly consistent. Montesquieu, as we know, gave the celebrated definition of taxes which classes him among the partisans of the benefit theory.<sup>5</sup> Yet, when speaking of the progressive tax in Athens, he upholds it on entirely different grounds. "In the personal tax," says Montesquieu, "the proportion which would exactly follow the proportion of property would be unjust. The Athenian tax was just, although not proportional. If it did not follow the proportion of property, it followed the proportion of wants. It was held that every one had an equal amount necessary to his subsistence; that this necessary portion ought not to be taxed; that the useful came next, and that it ought to be taxed, but less than the superfluous."<sup>6</sup> We see from this passage that Montesquieu

<sup>4</sup>"Es zahlte zu einer Zeit in welcher jedermann den zehnten Theil von seinen Einkünften der Obrigkeit zinsen müsse, der Arme in dem arithmetischen Verhältnisse, nicht so viel als der Reiche."

<sup>5</sup>See above p. 163.

<sup>6</sup>"Dans l'impôt de la personne, la proportion injuste seroit celle qui suivroit exactement la proportion des biens . . . La taxe étoit juste, quoiqu'elle ne fût point proportionnelle; si elle ne suivroit pas la proportion des biens, elle suivroit la proportion des besoins. On jugea que chacun avoit un nécessaire physique égal; que ce nécessaire physique ne devoit point être taxé; que l'utile venoit ensuite, et qu'il devoit être taxé, mais moins que le superflu." Montesquieu, *De l'Esprit des Lois*, book xiii, chap. vii.

defends progressive taxation because the curtailment of luxuries involves less sacrifice than the curtailment of necessaries. But he adds immediately: "It was thought that the size of the tax on the superfluous would prevent the superfluous."<sup>7</sup> This would seem to imply the socio-political or socialistic theory of progressive taxation, that it is the duty of the state to remedy inequalities of wealth. Montesquieu must therefore be regarded as inconsistent, although in the main he may be classed under the division here discussed.

A similar charge of inconsistency can be brought against Graslin, the author of the most elaborate defense of the progressive principle in the eighteenth century. Graslin, as we have seen above,<sup>8</sup> is an ardent defender of the benefit theory of taxation, but when he reaches the crucial point he adroitly slips in the faculty theory and attempts in a very remarkable way to interpret benefit in terms of faculty.

Taxes are indeed, says he, nothing but a return for protection. The rich man, however, presents so to speak, a greater surface to protection than the man in comfortable circumstances. Owing to his social position, his wealth and his enjoyments, he therefore really gets more of this kind of satisfaction of wants, for we must interpret the payments which one makes in exchange for protection in the light of the satisfactions which he gives up; and the rich man in paying a proportional tax has to retrench only in his extreme luxuries, while the other has to sacrifice objects of necessity rather than of comfort.<sup>9</sup>

<sup>7</sup> "Que la grandeur de la taxe sur le superflu empêchoit le superflu."

<sup>8</sup> Pp. 194-195.

<sup>9</sup> "Le riche présente une plus grande surface à la protection que le citoyen aisé. Il prend plus en quelque façon de cet objet de besoin, par le rang qu'il tient dans la société, par ses possessions et ses jouis-

Confronted by the objection that this is not an exchange of value for equal value, Graslin states that the exchange must be interpreted in the light of a relation to individual wants. Exchange in general is the barter of a superfluity for a necessity, or of a superior want for an inferior want; but protection has a different value for different people, because its value varies according to the value of things given in return; and this value depends on the relation of wealth to wants. The greater the wealth the less is the value of what is given up by the taxpayer. Hence the general law of taxation is that the tax must grow progressively faster than the comfort of the tax payer; if his comfort is doubled, the tax must be more than doubled.<sup>10</sup> It will be seen, therefore, that Graslin

sances. S'ils donnaient, l'un et l'autre, un échange de la protection, des objets des mêmes besoins, il serait juste qu'ils donassent chacun une portion des ces objets, proportionnelle à celle qu'ils reçoivent dans l'objet total de la protection. Mais le riche, qui donnerait le dixième de son revenu, ne donnerait, c'est-à-dire, ne serait privé, que des objets des derniers besoins; au lieu que le citoyen simplement aisé, qui n'a que les objets de nécessité et d'utilité en donnant une dixième de la fortune, donnerait peut-être une moitié des objets d'utilité. Le dernier donnerait donc plus que le premier, en recevant moins. Graslin, *Essai analytique sur la Richesse et sur l'Impôt*, 1767, p. 285.

<sup>10</sup> "L'échange considéré dans la rapport direct et absolu de chaque homme à ses divers besoins est un troc d'une chose superflue contre celle dont il a besoin, ou d'une chose qui, sans être superflue, est l'objet d'un besoin inférieur . . . Il n'en est pas de même de la protection, qui est un objet, de besoin incomunicable. . . . La protection, qui doit être achetée par deux hommes dont l'un est beaucoup plus riche que l'autre, a une valeur très différente pour chacun d'eux, parcequ'elle n'est qu'en raison du rang que tient le besoin de cet objet dans l'ordre particulier et respectif de leurs besoins; conséquemment, le riche, qui possède tous les objets de besoin supérieurs et inférieurs à celui de la protection, s'il donne la plus grande partie des objets inférieurs à celui-la, aura toujours fait un échange plus avantageux que l'homme qui, possédant très peu d'objets de besoin inférieurs à la protection, les donnerait tous en échange de cet objet de besoin." *Ibid.*, pp. 289-290. "La protection

really injects into his idea of benefit the conception of sacrifice, and that he is able to save the situation only by an interpretation of benefit which really abandons the entire contention. We should, therefore, scarcely be tempted to agree with those who assert that Graslin understood the subject better than any one else in the eighteenth century.<sup>11</sup>

Montesquieu's views are accepted in part by Rousseau when he says that in levying taxes we must consider "le rapport des usages, c'est-à-dire, la distinction du nécessaire et du superflu. Celui qui n'a que le simple nécessaire ne doit rien payer du tout; la taxe de celui qui a du superflu peut aller au besoin jusqu'à la concurrence de tout ce qui excède son nécessaire."<sup>12</sup> Rousseau proceeds to demolish the argument that according to one's station in life, what is superfluous to one is necessary to another.<sup>13</sup> Rousseau's chief defense of progressive taxation, however, rests as we have seen, on a quite different argument.<sup>14</sup>

Montesquieu's theory had a very wide influence on the thought of his time. His doctrine was accepted, for instance, by the Chevalier de Jancourt, the author of the article on taxation in Diderot's Encyclopedia. Jancourt

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varie dans sa valeur relativement aux objets de besoin." Graslin, *op. cit.*, p. 291 . . . "La loi générale de l'impôt est qu'il doit augmenter dans une proportion toujours croissante de l'aisance du contribuable; c'est-à-dire qu'il doit être plus que double, si l'aisance est double." *Ibid.*, p. 305.

<sup>11</sup> "La progressivité, qu'il a mieux comprise et mieux exposée que personne au dix-huitième siècle. Lichtenberger, *Le Socialisme au Dix-huitième Siècle*, 1895, p. 320. Desmars recognizes the hiatus in Graslin's logic, which, however, he simply qualifies as "chose singulière." Desmars, *Un Précurseur d'Adam Smith*, etc., p. 134.

<sup>12</sup> Rousseau, *Discours sur l'Oeconomie Politique*, 1758, p. 60.

<sup>13</sup> "C'est un mensonge: car un grand a deux jambes aussi qu'un bouvier, et n'a qu'un ventre non plus que lui." *Ibid.*, p. 60.

<sup>14</sup> See above, pp. 192-194.

confesses that from the point of view of the benefit theory everyone secures the same advantages from government. Notwithstanding that fact, however, he demands progression in very much the same terms as Montesquieu.<sup>15</sup> After quoting Montesquieu he proceeds:

"Such a tax which would impinge by steps of five, ten, thirty, fifty louis on the frivolous expenses of every family in easy circumstances, and which would cause a restriction of their expenses in proportion to the easiness of their circumstances, would suffice, together with current revenues, to defray all the expenditures of government, as well as the outlays for a just war, without the laborer's ever hearing anything about it except in the public prayers."<sup>16</sup>

Tifant de la Noue favors progression for much the same reason. "It is not enough," says he, "for the citizen to have the right of possession. He must also be protected in his right of enjoyment."<sup>17</sup> The protection of the sovereign is due especially, in his opinion, "to those whose

<sup>15</sup> "Cette tax est encore admissible pourvu qu'elle soit proportionnelle, et qu'elle charge dans une proportion plus forte les gens aisés en ne portant point du tout sur la dernière classe du peuple. Quoique tous les sujets jouissent également de la protection du gouvernement, de la sûreté qu'il leur procure, l'inégalité de leurs fortunes et des avantages qu'ils en retirent, veut que les impositions, viennent pour parler ainsi en progression géométrique, deux, quatre, huit, seize, sur les aisés; car cet impôt ne doit pas s'étendre sur le nécessaire."—Jancourt, article "Impôt" in the *Encyclopédie*.

<sup>16</sup> "Tel impôt qui retrancherait par an cinq, dix, trente, cinquante louis sur les dépenses frivoles de chaque famille aisée, et cette retranchement fait à proportion de l'aisance de cette famille, suffirait avec les revenus courans pour rembourser les charges de l'état ou pour les frais d'une juste guerre, sans que le laboureur en entendit parler que dans les prières publiques."

<sup>17</sup> "Ce n'est point assez pour le citoyen d'avoir le droit de posséder; il faut encore qu'on le maintienne dans la liberté de jouir." Tifant de la Noue, *Réflexions philosophiques sur l'Impôt, où l'on discute les Principes des Économistes et où l'on indique un Plan de Perception Patriotique, accompagné des Notes.* 1775. See Lichtenberger, *Le Socialisme au XVIII siècle.* p. 322.

genius is their sole capital, and who have only this means of assuring their subsistence by the duties which they levy on the whims of the land owners and the capitalists.<sup>18</sup> His practical proposals are summed up as follows: A progressive duty on articles of food, according as they are to be put in the category of necessities or of luxuries; a similar progressive duty on all other commodities; a progressive poll tax arranged in the same way; and a tax on that part of fixed property which is nothing but luxury or extreme wealth. "For," says Tiffant, "a tax on solid and fixed incomes appears to me to be the best kind of profits on which to impose the burden."<sup>19</sup>

As we approach the Revolution, we see Montesquieu's influence extend more widely. It is true, as we have learned above,<sup>20</sup> that most of the cahiers advocate proportional taxation. We find, however, the progressive principle proclaimed in two cases. In one of these it is stated that taxation according to faculty means that double comfort implies a double impost.<sup>21</sup> In the other it is stated that taxation ought to be arranged not proportionally, but

<sup>18</sup> "À ceux dont le génie est l'unique capital, qui n'ont que ce moyen pour assurer leur subsistance par les droits qu'ils prélevent sur les fantaisies des possesseurs des terres et sur celles des capitalistes."

<sup>19</sup> "Un droit progressif sur les denrées, en raison de leur approximité du besoin ou du luxe; un droit dans une progression pareille sur tous les autres objets; une capitation progressive dans la même raison; un impôt sur la partie des immeubles qui n'est que luxe ou richesse décidée; une taxe sur les rentes solides et fixes me paraissent les profits les plus robustes sur lesquels puisse rouler l'impôt."

For a similar defense of progressive taxation in the works of Helvetius and Rabelleau, see Lichtenberger, *op. cit.*, pp. 264, 401.

<sup>20</sup> P. 207.

<sup>21</sup> "L'impôt sur les personnes sera établi et reparti eu égard à leurs facultés de manière que celui qui a le double de l'aisance paie le triple des impositions des aisés de sa classe et ainsi de suite." Cahier du Tiers-Etat de Renne. See Gomel, *Histoire Financière de l'Assemblée Constituante*, 1896, i, p. 120.

according to the relative sacrifices that people are called upon to make.<sup>22</sup>

Among the pamphleteers of the Revolution itself, the defenders of progressive taxation were more numerous. Perhaps the most prominent of these was Gosselin.<sup>23</sup> Gosselin is discussing the single tax of the "Economistes." He confesses that it might be a good thing to have equality in wealth; but in default of that we must at least tax the rich on their luxuries and expenses.<sup>24</sup> The practical method of accomplishing this is to divide the population into ten classes according to their wealth, and to tax the first class one-fiftieth, the second, one-fifty-fifth and so on *ad infinitum*.

Other upholders of the progressive principle on the same ground were Deverité and Du Fourney de Villiers. Deverité gives a sharp criticism of modern society, and paints in lurid colors the unhappy lot of the workman who is a "mulet des armées." He pays more taxes than the rich, and yet, taxes ought to be in an ascending, growing ratio to wealth, and should increase with the degree of

<sup>22</sup> "La répartition (de l'impôt) doit être faite de manière que le pauvre paie peu, l'homme aisné d'avantage, et le riche beaucoup, non seulement sur une règle proportionnée, mais en raison combinée des sacrifices que chacun peut faire sans nuire à ses besoins." Cahier du Baillage de Brian le Vigan. See Lichtenberger, *Le Socialisme et la Révolution Française*, 1899, p. 26. Cf. Rouvière, *Histoire de la Révolution Française dans le Département du Gard*, 1887, i, p. 478. Also De Retz de Serviez, *op. cit.* p. 73.

<sup>23</sup> Gosselin, *Réflexions d'un Citoyen addressées aux Notables sur la Question proposées par un grand Roi (Frederic II)*: "En quoi consiste le bonheur des peuples et quels sont les moyens de le procurer" ou sur cette autre: *D'où vient la misère, et quels sont les moyens d'y remédier?* Paris, 1787. Cf. Lichtenberger, *Le Socialisme Utopique*, 1898, pp. 150-151, and *Le Socialisme au XVIII<sup>e</sup> Siècle*. 1895, pp. 434-440.

<sup>24</sup> "Ce serait bon si tous les biens se trouvaient également partagés. Il faut donc, en attendant, tâcher de faire tomber sur les

superfluity; for wealth augments indefinitely, at the expense of those that have little.<sup>25</sup>

De Fourney de Villiers attacks the present distribution of wealth, and suggests a new method of classifying people according to their property. According to this distribution he thinks the poor of every order, far from paying, would have the right of abatement. Those who have only enough for the necessaries of life would neither pay nor receive anything, since the real wants do not grow in proportion to one's superfluities. If the people in easy circumstances are held to pay one-twentieth, the rich ought to pay two and one-half fold, the opulent fivefold and those who are bursting with wealth, tenfold.<sup>26</sup> As this division is, however, impossible, he contents himself with the demand that the wealthy pay most of the taxes.

Progression is advocated also by Le Peletier de Saint-Fargeau,<sup>27</sup> and by Carnot<sup>28</sup> in his *Plan d'Education Nationale*, as well as by Noilliac, although for another reason.<sup>29</sup>

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riches la plus grande partie de l'impôt, ce qui ne peut avoir lieu qu'en imposant ce qui sert à leur luxe et leur consommation."

<sup>25</sup> "Les impôts devraient être en proportion géométrique ascendante avec les fortunes et croître avec les degrés du superflu." "L'opulence s'accroît indefiniment aux dépens de ceux qui ont peu." Deverité. *La vie et les Doléances d'un pauvre Diable pour servir de ce qu'on voudra aux prochains États—Généraux*, 1789. Cf. Lichtenberger, *Le Socialisme et la Révolution Française*, p. 38.

<sup>26</sup> "Selon cette distribution les pauvres de tout ordre, loin de payer, auraient droit à des soulagements. Ceux qui n'ont que le nécessaire ne paieraient ni ne recevraient, et comme les besoins réels ne croissent point en raison du superflu si les gens aisés devaient payer un vingtième, les riches en devraient payer deux et demi, les opulents cinq, les regorgeants dix." Du Fourney de Villiers, *Cahier du Quatrième Ordre*, 1789. Quoted in Lichtenberger, *op. cit.*, p. 39.

<sup>27</sup> Lichtenberger, *op. cit.*, p. 197.

<sup>28</sup> *Correspondence générale de Carnot*, published by E. Charavay, 1892, i, p. 187; quoted in Lichtenberger, *op. cit.* p. 126.

<sup>29</sup> See above, p. 197, Lichtenberger, *Le Socialisme au XVIIIe Siècle*,

Montesquieu's ideas spread also to Germany, where we find several writers at least posing the question of progressive taxation, even if they did not defend it. Thus Justi cites the statement of Montesquieu as to the Athenian progressive tax, and after comparing the progressive scale with the then usual practice, adds, "Ich überlasse den Lesern zu urtheilen welche Grundsätze am richtigsten sind."<sup>80</sup> So, also, Scheidemantel quotes Montesquieu approvingly,<sup>81</sup> and Struensee advances the same idea. Proportional taxation, he tells us, does not impose the same burden, for if we take away 30 units from A, who has 300 units of income, and if we take away 300 from B who has 3,000 units of income, we impose a very unequal sacrifice on them. The one has not enough to eat, and the other perhaps gives up a few pleasure trips. Where is the justice in this?<sup>82</sup>

p. 322, note 3 quotes another earlier pamphlet in defense of the progressive principle: *Mémoire sur une nouvelle Imposition établissant que l'Impôt doit tomber sur le superflu et non sur le Nécessaire absolu.*"

<sup>80</sup> Justi, *Staatswirthschaft*, 1755, pp. 5-6.

<sup>81</sup> "Athen beurteilte die Auflagen nach geometrischen Verhältnissen, andere Nationen haben das arithmetische Mass vorgezogen: ich würde zwar den Gebrauch der Athenienser für besser halten—ein Reicher kann weit leichter dreissig von Hundert als der Dürftige, fünf vom Hundert entbehren." Justi, *Staatsrecht nach der Vernunft*, 1770, pp. 2.267."

<sup>82</sup> "Wo blebit nun die Gerechtigkeit? Jener kann sich nicht mehr satt essen, dieser stellt vielleicht jährlich ein paar Lustreisen ein." K. A. V. Streuensee, "Ueber die Mittel eines Staats bei ausserordentlichen Bedürfnissen, und besonders in Kriegszeiten, Geld zu erhalten." In *Abhandlungen über wichtige Gegenstände der Staatswissenschaft*. 1800. Pp. 212-13.

B. *The Nineteenth Century.*  
*French Writers.*

Very much the same ideas were developed in the nineteenth century. Among the earliest of the French writers was the economist, Montyon. Montyon holds that not only must the sum necessary to existence be exempt, but the revenue which is devoted to the satisfaction of wants not far removed from necessities, must be very lightly taxed; while fortunes whose product exceeds what is necessary both for necessaries and for comforts belong in far greater part to the state.<sup>1</sup> Montyon pleads in especial for a diminution of the rate in favor of fathers of large families.

The most celebrated French advocate of progressive taxation in the nineteenth century, however, is J. B. Say. Say maintains that taxation is a sacrifice made to public order; but public order cannot demand the sacrifice of whole families. Hence, the minimum of subsistence must be spared. When we go beyond that, Say confesses that uncertainty begins. The line that separates superfluities from necessities is not fixed, but relative. "All that we know is that after a certain point there is in every income an imperceptible progression, so that a family can satisfy ever less necessary wants, until the wants become almost

<sup>1</sup>"Non seulement l'impôt personnel ne doit point morceler ce qui est absolument nécessaire à la subsistance du contribuable; mais par une suite de ce principe, il doit être gradué dans une telle proportion de la fortune, qu'un revenu qui ne fournit que quelques douceurs d'existence si proches des besoins qu'elles peuvent se confondre avec eux, et que, sans elles, l'existence serait un mal plutôt qu'un bien, ne soit grevé que d'un impôt très léger, si toutefois il en doit supporter aucun; un revenu qui confère une plus grande aisance doit être plus fortement imposé; et dans une grande fortune, les produits qui excèdent ce qu'exigent les besoins et l'aisance, peuvent en très grande partie être consacrés aux besoins de l'Etat." Mon-

unfelt."<sup>2</sup> Say gives the classic example of two families with 300,000 and 300 francs income respectively. A proportional tax of ten per cent would leave the one family 270,000 income, which would scarcely affect the satisfaction of its wants at all; but it would leave the other family only 270 francs, and thus rob it of the necessary means of existence. "A tax which is simply proportional to income would hence be far from just. I shall go further and shall not hesitate to say that the progressive tax is the only just tax."<sup>3</sup> In another work, after stating that the protective theory logically leads to proportional taxation, he asks: "Is not a simple proportional tax heavier for the poor than for the rich? Ought the man who earns only enough to feed his family to be taxed in exactly the same proportion as the man who, because of his ability, his original capital or his landed property, earns enough not only to defray all the expenses of a luxurious life, but who, in addition, yearly adds to his capital? Do you not find in this demand something that shocks your feeling of justice?"

<sup>2</sup> "Tout ce qu'on sait, c'est que les revenus d'un homme ou d'une famille peuvent être modiques au point de ne pas suffire à leur existence, et que depuis ce point jusqu'à celui où ils peuvent satisfaire à toutes les sensualités de la vie, à toutes les jouissances du luxe et de la vanité, il y a dans les revenus une progression imperceptible, et telle qu'à chaque degré, une famille peut se procurer une satisfaction toujours un peu moins nécessaire, jusqu'aux plus futile qu'on puisse imaginer; tellement que si l'on voulait asseoir l'impôt de chaque famille, de manière qu'il fût d'autant plus léger qu'il portât sur un revenu plus nécessaire, il faudrait qu'il diminuât, non pas simplement proportionnellement mais progressivement." J. B. Say, *Traité d'Economie Politique*, 1803, book iii, chap. ix; 8th ed., 1876, p. 548.

<sup>3</sup> "On voit donc qu'un impôt qui serait simplement proportionnel au revenu serait loin cependant d'être équitable . . . J'irai plus loin, et je ne craindrai pas de prononcer que l'impôt progressif est le seul équitable." *Ibid.*, p. 549.

tice?"<sup>4</sup> In other words, Say bases his demand for progressive taxation on the theory of sacrifice.

Since Say, but few French writers have until very recently advocated progression. Those that have done so have, however, generally been overlooked. Let us take them up in their historical order.

Esmenard du Mazet defends progressive taxation on the express ground that every citizen must make an equal sacrifice, that is, a sacrifice which will make them all equally feel the privation imposed upon them by the tax. "The possessor of 20,000 francs income who is taxed 2,000 francs, is less affected by the tax than he who with 1,000 francs pays 100. Otherwise we would have to admit that all our wants were equally urgent."<sup>5</sup> More recently the Belgian economist Denis has taken a similar position, although he maintains that the contest between the principles of proportion and progression is interminable as long as there exists an inequality in wealth.<sup>6</sup>

The most subtle attempt to prove that the sacrifice theory leads to progressive taxation was made by Fauveau, who applies the mathematical method. Fauveau, we remember, maintained that even from the standpoint of benefits taxation must be progressive.<sup>7</sup> But the equality-of-sacrifice theory, in his opinion, leads to the same result.

<sup>4</sup> J. B. Say, *Cours Complet d'Économie Politique Pratique*, 1829, part viii, chap. iv; Brussels ed. (1844), p. 495.

<sup>5</sup> "Tous les citoyens doivent faire, dans l'intérêt de la chose publique un sacrifice égal, c'est à dire qui leur fasse également sentir la privation que ce devoir impose . . . Ainsi donc, et le sentiment intérieur et l'expérience sont d'accord pour nous faire adopter dans le répartition de l'impôt une autre base que la simple proportion de la fortune." Camille Esmenard du Mazet, *Nouveaux Principes d'Économie Politique*, 1849, ii, p. 283.

<sup>6</sup> "Je considère l'opposition des deux tendances comme indéfectible aussi longtemps que subsistera l'inégalité des richesses." H. Denis, *L'Impôt*, 1889, pp. 89-91.

<sup>7</sup> Above, p. 202.

The moral sacrifice imposed on individuals by taxation, does not depend alone, he thinks, on the amount of money taken. The loss of the same sum of money is far more burdensome to the poor than to the rich, because in the first case it trenches on necessities, in the second on superfluities. Hence the moral value of a man's fortune does not increase as fast as its mathematical value.<sup>8</sup> The moral value of a given amount of property may be considered a function of its mathematical value, a function which increases less rapidly than the variable. The moral sacrifice, hence, is the difference between the moral value of a man's fortune before the payment of the tax and after its payment. Great mathematicians like Laplace and Poisson have shown that the moral increase of wealth may be deemed proportional to its mathematical increase and inversely as the total value of the fortune, whenever this increase is infinitely small. Hence taxation based on equality of sacrifice must be progressive, although the rate of progression must be less than in the case of taxation looked upon as an insurance premium.<sup>9</sup>

<sup>8</sup> "La perte d'une même somme d'argent est beaucoup plus pénible pour le pauvre que pour le riche, parcequ'au premier c'est le nécessaire, au second c'est superflu qui se trouve enlevé. On comprendra aisément qu'en conséquence de cette vérité la fortune d'un homme n'a pas pour lui une valeur morale qui croisse aussi vite que sa valeur mathématique, tout accroissement de bien égal diminuant de valeur alors qu'il rapporte des choses de moins en moins nécessaires." Fauveau, *Considérations Mathématiques sur la Théorie de l'Impôt*, 1864, p. 33.

<sup>9</sup> "On peut donc considérer la valeur du bien d'un individu comme une fonction de la valeur mathématique de ce bien, fonction qui croît moins rapidement que la variable . . . Le sacrifice moral imposé à chacun c'est la différence de la valeur de la fortune de l'individu avant le payement de l'impôt et après . . . L'accroissement moral de la fortune peut être considéré comme proportionnel à son accroissement mathématique et en raison inverse de la valeur totale de la fortune, toutes les fois que cet accroissement est infiniment petit . . . A ce point de vue l'impôt doit être progressif." *Ibid.*, pp. 35 and 41.

The exact rate is expressed by Fauveau after several pages, filled with operations in differential calculus, in a formula two lines long, which it is not necessary to reproduce here.

### C. *The English Writers.*

The English writers have hitherto been almost entirely neglected by the historians of public finance. The earliest advocacy of progression resting on faculty, is to be found in the writings of a celebrated divine, Dr. Paley. He lays down his views in the following words: "A tax, to be just, ought to be accurately proportioned to the circumstances (or more correctly perhaps to the amount of the property) of the persons who pay it. But upon what, it might be asked, is this opinion founded, unless it could be shown that such a proportion interferes the least with the general conveniency of subsistence? Whereas, I should rather believe, that a tax constructed with a view to that conveniency, ought to rise upon the different classes of the community *in a much higher ratio* than the simple proportion of their incomes. The point to be regarded is not what men *have*, but what they can *spare*; and it is evident that a man who possesses £1,000 a year can more easily give up £100 than a man with £100 can part with £10; that is, those habits of life which are reasonable and innocent, and upon the ability to continue which the formation of families depends, will be much less affected by the one deduction than by the other. It is still more evident that a man of £100 a year would not be so much distressed in his subsistence by a demand from him of £10, as a man of £10 a year would be by the loss of £1."<sup>1</sup> Paley then goes on to discuss whether "the simple, the duplicate, or any higher or immediate proportion of men's incomes," is the real ideal.

The same idea is also worked out by the English so-

<sup>1</sup> Paley, *Elements of Political Knowledge*, chap. xi, sec. iv, "Taxation." In his collected works, ed. 1830, iii, p. 511.

cialistic physician, Charles Hall, at the beginning of the nineteenth century. The present method of taxation, according to Hall, is not justly proportioned.<sup>2</sup> "We have observed," says he, "that the present mode is—if a person of one hundred pounds a year pays ten pounds, a man of one thousand pays one hundred pounds a year. In this case the former gives up something highly useful if not necessary to his family, whilst the latter gives up nothing but what is in a much less degree useful, and bordering on such as are superfluous. What a man of ten thousand a year gives up is in a still less degree useful, and approaching still nearer to what is superfluous. It would be desirable that the part each rich man should pay toward the taxes should be regulated by some gradually increasing series; to increase, for instance, as the squares of the income of each person, or in some arithmetical or geometrical proportion; this would entirely prevent any arbitrary and partial assumptions, as is the case at present, where it is evidently in favor of the rich, and that in a greater ratio as they are more rich." Hall proceeds to point out that such a tax would really be no grievance, but would, on the contrary, bring a far greater equality.

A fuller exposition of the doctrine is contained in the work of Craig, who is the first English writer to devote a separate volume to problems of public finance. Although Craig sometimes uses language that seems to imply the give-and-take theory, his defense of progression is based primarily on the equality-of-sacrifice doctrine. Thus he says: "The taxes which each inhabitant pays to the state consist of the quantity of enjoyment of which he is deprived. . . . It seems reasonable that the portion

<sup>2</sup> Charles Hall, *The Effects of Civilization on the people in European States*, 1807. The above quotations are made from the 2nd edition, 1813, pp. 206 *et seq.*

of enjoyments so yielded by individuals should correspond to that which they respectively retain."<sup>3</sup> Craig divides all enjoyments into three classes: necessities, gratifications and superfluities. After a lengthy examination of the privations occasioned to individuals by the diminution of each of these various classes, he concludes that "taxes, if proportioned to wealth, occasion more severe privations to the poor than to the rich," and that "the proportion of the public burdens laid on each individual ought to increase in a quick progression, according to his wealth."<sup>4</sup> Craig also attempts to prove that the state is compelled to assume certain expenditures directly traceable to the demands of the wealthy, and that hence the "pre-eminently wealthy" ought to pay more than in proportion to their wealth. This, however, is plainly the give-and-take theory, and therefore open to some question; and Craig is in the main content to base his demands for progression on the theory of privation of enjoyments of equality of sacrifice. Later on, he applies the theory of "sacrifice of enjoyments" not only to what he calls the principle of "gradation" of the tax,<sup>5</sup> but also to what is generally known as the principle of differentiation, making a distinction in the rate according to the source whence the income is derived. Proportional taxation on all income would be grossly unequal. The inequality, he thinks, may be mitigated, not only by progressive taxation, but "by making the rate depend partly on property and partly on income," i. e., by capitalizing

<sup>3</sup> John Craig, *Elements of Political Science*, 1814, ii, p. 264.

<sup>4</sup> *Ibid.*, ii, pp. 270, 279.

<sup>5</sup> In discussing the first maxim of Adam Smith, he introduces the "important modification" by the assertion "that according to justice as well as expediency, the proportion which the taxes bear to the property of each contributor ought to increase progressively according to the wealth." *Ibid.*, iii, p. 5.

the income.<sup>6</sup> Craig, however, sees that even these arrangements would not bring about a complete equality of sacrifice. "Sources of inequality would still remain in the state of health of the contributor, in the probability of his employment being permanent, and in the various risks to which commercial speculations are necessarily, though very unequally, exposed."

Buchanan, the acute commentator of Adam Smith, was also in favor of progressive taxation, and for very much the same reason. He tells us: "The injustice of fixing a common rate of contribution for all incomes, however various, is sufficiently obvious; since an income of £10,000 per annum might pay, without any hardship, a proportion which, if exacted from a smaller income, would force a retrenchment, not of comforts merely, but of absolute necessities. The rate of contribution to be equitable ought therefore to vary, gradually ascending, until it rises to its maximum among the highest incomes."<sup>7</sup>

The most comprehensive, and in fact the only elaborate work in English, devoted specifically to the income tax, is that of Sayer.<sup>8</sup> Sayer takes it for granted that income is the best test of ability. "Considering equality of taxation to signify taxation in due proportion to every one's means and ability to pay, that most just principle of tax-

<sup>6</sup>"All revenue derived from annuities or professions might be brought to a capital, according to the number of years at which the life of the annuitant was valued, and the tax might then be levied on this fictitious property." Craig, *op. cit.*, iii, p. 23.

<sup>7</sup>David Buchanan, *Observations on the Subjects treated of in Dr. Smith's Inquiry into the Nature and Causes of the Wealth of Nations*, 1817, p. 211.

<sup>8</sup>*An Attempt to show the Justice and Expediency of substituting an Income or Property Tax for the present Taxes or a Part of them, as Affording the most Equitable, the least Injurious, and the least Obnoxious Mode of Taxation*, 1833. It was published anonymously but was written by Benjamin Sayer. Cf. McCulloch, *Literature of Political Economy*, 1845, p. 339.

ation, it seems to follow that income, which constitutes and evidences the means to pay, is the surest basis for equal taxation." Sayer maintains that income is far superior to expenditure as a basis of taxation, because a tax on income "admits practically of a gradation" or "gradually increasing scale of taxation, according to which the rate of it will become higher as the means for the contribution increase."<sup>9</sup> Another advantage of the income tax is that it admits of a proportionate reduction to persons having large families, "on the principle that taxation should be exacted in proportion to every one's ability to bear it, and as a man with a family to maintain is less liable to bear taxation than a man without a family."<sup>10</sup> Sayer defends the general theory of "the graduated scale of charge" for the reason "that the deduction which it makes from inferior incomes occasions a deprivation of the necessities of life, while the deduction from large incomes deprives of luxuries only, or of such conveniences or enjoyments as can be spared without so much personal distress and suffering as the want of absolute necessities occasions."<sup>11</sup> He discusses some objections made to the principle, and although confessing that there are certain doubts as to the practicability of carrying out the entire system of graduation, he nevertheless upholds progressive taxation as in the main just and expedient. Sayer's whole discussion is noteworthy.

Several years later, at the time that the principles of the English income tax were actively discussed, progressive taxation was again demanded. Buckingham based his contention on the clause of Adam Smith that people should pay in proportion to their respective abilities. "So

<sup>9</sup> Sayer, *op. cit.*, pp. 3, 4.

<sup>10</sup> *Ibid.*, pp. 28, 248.

<sup>11</sup> *Ibid.*, p. 219.

long as a man with an income of £300,000 a year must be more able to pay thirty per cent of income tax than a man of £50 a year to pay five per cent, so long must the graduated scale be considered more just than a uniform one for all classes."<sup>12</sup> Later on he explains that "the very wealthiest who paid the heaviest amount and the largest proportion of their incomes would after all be least inconvenienced by such payment, since it is not so much the amount that is contributed by them, as the surplus amount of fortune or income still left in their possession, which affects their happiness."<sup>13</sup>

Among recent writers Sidgwick devotes some slight attention to the problem. He admits that the benefit principle, or the fee principle as he calls it, can be applied to taxation only in part if at all.<sup>14</sup> The problem hence arises as to what is "the fundamental principle for the distribution of the burden of taxation in the narrower sense—that is, of the burden that remains to be allotted when the principle of payment in proportion to service received has been applied as far as reasonable." The answer in Sidgwick's words is that "the obviously equitable principle—assuming that the existing distribution of wealth is accepted as just, or not unjust—is that equal sacrifice should be imposed on all, except so far as it is thought desirable to make taxation a means of redressing the inequalities of income that would exist apart from governmental interference."<sup>15</sup> Sidgwick regrets this exception, limiting it, however, by the one proviso that the

<sup>12</sup> James S. Buckingham, *National Evils and Practical Remedies*, 1849, p. 351. Cf. also the *Financial Reform Tracts*, 1850, no. 27, p. 6. The subject is fully discussed from the same standpoint in another work by Buckingham, *Plan of an Improved Income Tax*, 1845, pp. 13-25.

<sup>13</sup> *Ibid.*, p. 370.

<sup>14</sup> H. Sidgwick, *Principles of Political Economy*, 1883, p. 555.

<sup>15</sup> *Ibid.*, p. 562.

community has to protect its members from starvation. The consequence of this is the exemption of the minimum of subsistence. "No one's income ought to be reduced by taxation below what is required to furnish him with the bare necessities of life." Sidgwick is tempted to go still further, and asks "whether in order to equalize the real burdens of taxation one ought not to lay a progressively increasing tax on the luxurious expenditures of the rich?" "I must admit," says he, that in my opinion such a tax would be justifiable from the point of distribution alone."<sup>16</sup> But he adds that "it is open to the practical objection that the progression, if once admitted, would be very difficult to limit, owing to the impossibility of establishing any definite quantitative comparison between the pecuniary sacrifices of the rich and those of the poor, with a resulting danger that it would be carried too far and drive capital away," thus causing a loss to production which would more than outweigh the gain in equality of sacrifice.<sup>17</sup> Sidgwick is therefore led to prefer the scheme of simply exempting savings from taxation.

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<sup>16</sup> Sidgwick, *op. cit.*, p. 563.

<sup>17</sup> *Ibid.*, p. 564.

#### D. *The German Writers.*

We come next to the German economists, among whom we find a far larger number of adherents of progressive taxation. The first of the Germans to demand progression as the outcome of the faculty theory was Schön. He breaks completely with the give-and-take theory, and asserts that taxes should be in accordance with ability.<sup>1</sup> A proportional tax would, in his judgment, really create economic inequality. It must be said, however, that Schön also partly advocates the socialistic theory in so far as he says that in democracies the cardinal point is to prevent great inequalities of wealth, and that progressive taxation is a far better engine for accomplishing this result than the drastic measures of a Lycurgus. He naively maintains, however, that in aristocracies and monarchies, on the other hand, inequality of wealth is unavoidable, but that progressive taxation is nevertheless to be demanded as the most equitable system, although the rate of progression must be different.<sup>2</sup> In democracies he proposes that the rate should increase arithmetically with every arithmetical increase in the income; in aristocracies and monarchies the rate should increase with every doubling of the income.<sup>3</sup>

Just before and during the revolution of 1848 we find the demand again coming to the front. Schmitthenner

<sup>1</sup> "Fähigkeit" is the word he uses. Johannes Schön, *Die Grundsätze der Finanz*, 1832, chap. 5, esp. p. 61.

<sup>2</sup> *Ibid.*, pp. 58-60.

<sup>3</sup> "Es darf (in Demokratien) nur die Abgabe im arithmetischen Verhältnisse steigen, wenn die Einkünfte im arithmetischen Verhältnisse wachsen; im Monarchien und Aristokratien müsste der Steuerfuss blos dann in arithmetischen Verhältnisse wachsen, wenn das Einkommen eine Verdoppelung erlanget." *Ibid.*, p. 60.

regards progression as a conclusion from the principle of economy by which he thinks we must understand not a commutative or absolute, but a distributive or relative equality.<sup>4</sup> In the national assembly Freiherr von Gross suggested an income tax with progressive rates up to thirty-three and one-third per cent,<sup>5</sup> and Baumstark demands that the rate should rise in a well defined progression which the legislature must apportion to the respective conditions of the taxpayers, as the amount of their income progressively rises.<sup>6</sup>

After the revolution of 1848 progressive taxation was not again advocated for several decades in Germany, although, as we have seen, the demand is frequently found in England. Recently this relation has been reversed. The English writers have not favored progression, but the Germans have done so. Let us consider, then, the chief German advocates of progression during the last generation.

The eminent economist, Held, lays the chief stress on equality of sacrifice. If we accept equality of sacrifice as a principle, proportional taxation is, in his opinion, absolutely illogical. Held maintains that the principle of equality cannot possibly lead to any arithmetical relation between income and pressure of taxation as the only equitable principle. This is all the more true because income

<sup>4</sup> "Gleichheit unter der jedoch nicht eine kommutative oder absolute, sondern eine distributive oder relative gemeint sein kann, so dass also die Quote nicht für alle Personen und Steuerobjekte gleich, sondern sich nach der Leistungsfähigkeit richtet."—Schmitthenner, *Grundlinien des allgemeinen oder idealen Staatsrechts*, 1845, pp. 357-8.

<sup>5</sup> Freiherr von Gross, *Allgemeine progressive Grund- und Einkommensteuer, Gleches Maas und Gewicht für Deutschland*. 1848.

<sup>6</sup> That the rate "in angemessener Progression, welche der Gesetzgeber den Verhältnissen anpassen muss, steigen sollte, sowie der Betrag des Einkommens in gewisser Progression steigt." E. Baumstark, *Zur Einkommensteuerfrage*. 1850.

itself does not seem a practicable standard by which to measure individual sacrifice. Income may, indeed, afford us a measure for the relative individual power to dispose of economic values; but he who disposes of equal values is not able, on that account, either to enjoy equally or to suffer privation equally.<sup>7</sup> Income, in other words, is no completely valid test of justice in taxation. Held concludes that proportional taxation is illogical, and that it is useless to endeavor to realize equality of sacrifice. The best taxes are those which lead to the least complaints.<sup>8</sup> Yet, later on, in constructing his positive system, he includes, as one of his fundamental demands, a progressive income tax.<sup>9</sup>

The most noted of the German defenders of progressive taxation is Neumann. Neumann thinks that the principle of faculty is in reality not different from that of equal sacrifice. Were the ability to pay taxes an absolutely fixed quantity, like measure and weight, then, indeed, it might be asked: What has faculty to do with sacrifice? But, in reality, faculty is not something definitely fixed. When anyone has to fulfill a duty, whether to father or to fatherland, his ability to do so generally increases in proportion as he imposes efforts on himself; and, furthermore, it generally increases in proportion as he denies himself pleasures, enjoyments and the satisfaction of wants. In both cases, thus, the ability grows with the sacrifice—the sacrifice of the effort and the sacrifice of the denial. Sacrifice and faculty in this sense hence are not different things, but stand in the closest

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<sup>7</sup> "Das tauschwerthe Einkommen des Einzelnen giebt uns ein Maas für die vergleichsweise Macht der Einzelnen, über ökonomische Werthe zu verfügen—aber wer über gleiche Werthe verfügt, kann desshalb nicht immer gleich Viel geniessen und gleich Viel entbehren." Held, *Die Einkommensteuer*, 1872, p. 113.

<sup>8</sup> *Ibid.*, p. 115.

<sup>9</sup> *Ibid.*, p. 189.

relation to each other. In fact, it may be said that only through a recognition of the sacrifice imposed can the measure of ability attain a definite form, and thus be of any use for purposes of taxation.<sup>10</sup> It might be claimed, indeed, that if two persons, with equal efforts, annually earn \$1,000 and \$10,000 respectively, their ability to pay taxes is as one to ten. This, however, is not true, because the state is not the only one to take advantage of their ability. The state must, so to speak, divide the taxpayer's ability with his family. The state must look at the sacrifices which the taxpayer is compelled to make. Of course, the state cannot take cognizance of all the individual elements of each man's condition; this would be as impracticable as it is impossible. The state has to deal only with the average men, average needs and average conditions.<sup>11</sup> The principle therefore must be to apportion taxes in such a manner as to correspond to the ability

<sup>10</sup> "Wäre die Leistungsfähigkeit—oder richtiger gesagt die Fähigkeit zu bestimmter Pflichterfüllung beizutragen—bei A, B, C, u. s. w., eine feststehende Grösse, wie Maas und Gewicht bestimmter Bezeichnung, so hätte jene Annahme recht. Was hätte den jene Fähigkeit mit dem Opfer zu thun, das die Leistung auferlegt?! In der That ist jene Fähigkeit aber etwas Feststehendes *nicht*. Wer zur Erfüllung seiner Pflicht zu leisten hat, gelte es dem Vater oder dem Vaterlande—dessen Befähigung hiezu wächst in Allgemeinen, je nachdem er sich Arbeitsmühen auferlegt, und sie wächst ebenfalls im Allgemeinen, je nachdem er sich Genüsse, Freuden und die Befriedigung von Bedürfnissen versagt. In beiden Beziehungen also steigert sich die Befähigung mit dem gebrachten Opfer, dem Opfer der Mühe und dem der Entzagung. Und Opfer und Leistungsfähigkeit in dem hier in Rede stehenden Sinne sind also nicht disparate Dinge, sondern stehen in inniger Beziehung zu einander." F. J. Neumann, *Die progressive Einkommensteuer in Staats- und Gemeindehaushalt*, 1874, p. 62.

<sup>11</sup> "Natürlich können freilich immer nur Durchschnittsmenschen, Durchschnittsbedürfnisse, Durchschnittsgefühle und Durchschnitts-empfindungen in Anschlag gebracht werden." *Op. cit.*, 1874, p. 63.

to contribute to public purposes with generally equal efforts and equal sacrifices as over against other needs.<sup>12</sup>

Neumann objects to the phrase equality (*Gleichmäsigkeit*) of taxation as in itself affording no clue. If individuals are taxed according to the number of their teeth or the length of their eyebrows, or their weight, we have, in one sense, an equality of taxation. What is it that should be equal? asks Neumann. What is the test or norm of equality? Some assume to find it in the mere fact of income, so that everyone will be left in the same relative position as before. They hence draw the conclusion that proportional taxation of income is the only equal method. Neumann, however, objects that this is no principle of taxation, just as little as is the opposite idea that it is the function of the state to alter conditions of wealth. Secondly, he holds that even if we accept the principle, proportional taxation of income does not necessarily ensue. For in actual life the same percentage of income tax may affect different individuals very differently, according as their whole economic condition changes.<sup>13</sup>

The logical conclusion from the principles of faculty and equality of sacrifice seems to Neumann to be progressive taxation. We do not tax individuals according to their faculty, if we tax A, with ten times as much income as B, only ten times as much. For, after satisfying his necessary wants, A still has not only ten times as much left with which to discharge his duty toward the state, but far more than ten times as much. His faculty is greater.

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<sup>12</sup> "Nach Massgabe der Leistungs-, oder genauer gesagt, der Steuerkraft, d. h. so zu vertheilen, wie es der Befähigung zur Leistung in Staat und Gemeinde bei etwa gleicher Anstrengung und etwa gleichen Opfern andern Bedürfnissen gegenüber entspricht." Neumann, *op. cit.*, p. 63.

<sup>13</sup> *Ibid.*, pp. 98-102.

In the same way, it is undeniable that a tax of \$15 is far harder to bear for a man with \$300 income, than a tax of \$1,500 for a man with \$30,000 income. The sacrifice is greater. As the rate of the tax becomes higher, the difference in the sacrifice is still more apparent. Thus, from the standpoint both of faculty and of sacrifice, equality of taxation means progressive taxation.<sup>14</sup>

One of the chief objections to progressive taxation is that as the progression increases the tax must finally, confiscate a man's entire income. Such a view, however, overlooks the fact, says Neumann, that the progression is not to affect higher incomes as such, but only the surplus incomes; since it is only these surplus amounts which generally subserve the less urgent wants. Moreover, there is a limit beyond which it is not true that equal amounts of high incomes subserve equally pressing wants. When we reach very high incomes they generally satisfy wants which are of equally little urgency, or which can be equally well dispensed with. In other words, beyond a certain point the tax must become proportional. The rate of progression thus must itself be degressive, ultimately to arrive at proportional taxation. The ideal must be a degressively progressive tax.<sup>15</sup>

While most of the minor German writers have followed Neumann's reasoning, the authors of two widely read textbooks on finance, Schäffle and Stein, rather ignore the theory of equality of sacrifice.

Schäffle maintains that the state should levy its taxes according to "the actual capacity to pay."<sup>16</sup> Property

<sup>14</sup> Neumann, *op. cit.*, p. 142.

<sup>15</sup> *Ibid.*, p. 146.

<sup>16</sup> "Der Staat soll alle Steuerkräfte nach Verhältniss der wirklichen Leistungsfähigkeit belasten." A. E. F. Schäffle, *Die Grundsätze der Steuerpolitik*, 1880, p. 75. Schäffle sums up his argument with but slight modifications in a latter work, *Die Steuern, Allgemeiner*

and income represent only the average capacity, and therefore, thinks Schäffle, it is necessary to supplement direct by indirect taxation in order to ascertain the actual, "individual, concrete, momentary" capacity.<sup>17</sup> In so far, however, as the average capacity is concerned—that which is measured by property or income—the rate cannot be proportional. For taxable capacity is very different in the higher strata or property and income than in the lower strata. Large property or large income possesses immeasurably more capacity to bear taxes when taken in connection with ordinary needs, but especially so in the case of extraordinary needs. Hence the justice and equity of progressive taxation. But we cannot imagine, says Schäffle, that the progressive rate should ever reach one hundred per cent. In the actual structure of society large fortunes and incomes have important functions to fulfill, such as the duty of conducting large business enterprises, the collection of capital, the employment of the fine arts, and the satisfaction of the extraordinary needs of an advanced civilization. Hence a limitless progression would involve a crippling of necessary social services.<sup>18</sup>

Schäffle's theory depends upon his interpretation of "taxable capacity" or faculty. "Actual capacity," says he, is "the expression of the amount which the taxable economic unit can abandon to the relative support of the

*Theil*, 1895, p. 218 *et seq.* The following quotations are from his earlier and more authoritative work.

<sup>17</sup> "Die wirkliche—individuelle, conkrete, momentane—Leistungsfähigkeit" as over against "die Durchschnittssteuerkraft."

<sup>18</sup> "Die Steuerkraft verhält sich einmal in den Höhenlagen der sozialen Vermögens- und Einkommensschichten anders als in den Tiefenlagen. Grosses Vermögen, grosses Einkommen ist dem ordentlichen, namentlich aber dem ausserordentlichen Bedarfsfalle gegenüber schon in Durchschnitt ungleich steuerkräftiger." Schäffle, *Die Grundsätze der Steuerpolitik*, 1880, p. 78.

state, without crippling his own relative support."<sup>19</sup> Or, as he puts it in another place, "the fundamental principle of public finance is the economically relative support of the State wants as over against a not less relative support of all non-state wants."<sup>20</sup> There are individual and collective wants, private and public wants; and a truly economic method of dealing with the question must not subordinate the one set to the other. Schäffle unconsciously uses very much the same language as did Montesquieu more than a century earlier.<sup>21</sup>

It may be said in criticism of Schäffle that the reasons which he advances in defense of large fortunes are, in themselves, not very strong, and that his definition of faculty is not sufficiently precise. It does not afford any real test for determining how and to what extent we can measure the "crippling of one's relative support." So far as it has any meaning at all, it implies the consumption or sacrifice theory which Schäffle is so careful to avoid. The stress is really put upon consumption, not upon production. The theory thus finally resolves itself into an acceptance of the sacrifice doctrine.

Stein, on the other hand, who upholds progressive taxation only in the later editions of his work, has not only nothing to say about equality of sacrifice, but regards faculty (*Steuerkraft*) exclusively from the standpoint of

<sup>19</sup> "Die wirkliche Leistungsfähigkeit ist eben der Ausdruck dafür, wie viel die steuerpflichtige Privatwirtschaft zu der im Budgetabschied bestimmten verhältnissmässigen Alimentation des Staates ablassen kann, ohne die verhältnissmässige Eigenversorgung zu vernämmern." Schäffle, *op. cit.*, p. 23.

<sup>20</sup> "Oberstes Princip der Finanzwissenschaft ist die volkswirthschaftlich verhältnissmässige Deckung des Staatsbedarfes gegenüber einer nicht minder verhältnissmässigen Deckung aller nichtstaatlichen Bedarfe." *Ibid.*, p. 17.

<sup>21</sup> The words of Montesquieu are: "Pour bien fixer ces revenus, il faut avoir égard et aux nécessités de l'état et aux nécessités des citoyens." *L'Esprit des Lois*, xiii, p. 7.

production. With every accumulation of capital the capacity to form new capital increases, while the wants of the owner do not increase with its amount.<sup>22</sup> This he calls the "law of capital growth."<sup>23</sup> He explains this more closely, however, as meaning that the capital-building qualities vary really only with the periodical surpluses. A definite percentage of small capital possesses relatively more power to generate further capital than an equal percentage of large capital. A millionaire, he thinks, can never secure as much revenue out of each fraction of capital as a small trader. His percentage of profit is smaller. But the frequent reduplication of the smaller percentage finally makes the surplus larger than the less frequent reduplication of the higher percentage. Hence it is the surplus or the income, not the capital, which ought to be taxed progressively. Moreover, the rate of progression ought itself to decrease with the income.<sup>24</sup> The point to be noted is that progressive taxation in Stein's judgment follows necessarily from the idea of production.

Professor Wagner, as we know, bases his demand for progressive taxation on what he calls the socio-political principle. Nevertheless he regards this principle as an outcome of the faculty theory, as explained by the sacrifice theory. Faculty he conceives as depending on two sets of conditions, those which respect the acquisition

<sup>22</sup> "Wohl ist es aber gewiss, das bei jedem Kapital die Kraft seiner Kapitalbildung mit seiner Grösse wächst . . . während das Bedürfniss seines Besitzers nicht in gleichem Grade grösser wird." Stein, *Lehrbuch der Finanzwissenschaft*, (4th ed, 1878), p. 421.

<sup>23</sup> "Grössengesetz der Kapitalien."

<sup>24</sup> "Der wahre progressive Steuerfuss soll auf der Zahl der Einkommenseinheiten beruhen, aber darf niemals als eine rein geometrische, sondern nur als eine mit jener Zahl selbst abnehmender Progression auftreten." *Op. cit.*, i, p. 451. Cf. 5th ed. (1885), ii, p. 432.

and possession of commodities, and those which respect the use to which these commodities are put in satisfying our own wants as well as those of others whom we are bound to look after.<sup>25</sup> In both cases the faculty stands in the closest relation with the pressure of the tax, or the sacrifice occasioned by the tax. As regards the acquisition of commodities everything depends on the manner of acquisition, whether entirely, partly or not at all through pure personal exertion. The same proportion of different kinds of income or property may thus represent a varying economic faculty or ability; and in general the faculty may be said to increase as the element of labor decreases. Now, says Wagner, in the same way the varying amount of the same income or property connotes a different faculty, in the sense that a greater amount of income means a more than proportional faculty.

This argument, however, seems to be defective. Professor Wagner does not tell us why a varying amount of property connotes a different faculty. The larger sum may be the result of labor, the smaller one not. On this hypothesis the very reverse of the above argument would be true. From the standpoint of production Professor Wagner hence does not prove his case. He substantially rests his argument on the equality-of-sacrifice theory, from which he deduces progressive taxation, on the ground that the sacrifice varies with the varying amount of the "free" income.<sup>26</sup> Here again, however, he stands quite or almost alone in trying to prove that the

<sup>25</sup> "Die wirthschaftliche Leistungsfähigkeit einer Person liegt in zwei Reihen von Momenten, solchen welche den Erwerb und Besitz von Sachgütern, und solchen, welche die Verwendung dieser Güter zu eigner oder anderen pflichtsmässig zu ermöglichen Bedürfniss Befriedigung betreffen." Wagner, *Finanzwissenschaft*, ii (2nd ed., 1890), § 184, p. 444.

<sup>26</sup> Wagner, *op. cit.*, ii (2nd ed., 1890), § 184, p. 446.

equality-of-sacrifice theory leads to progressive taxation, only on the assumption that it is the object of the state to remove inequalities of fortune. Unless we grant this, so runs the rather dubious reasoning, equality of sacrifice can lead only to proportional taxation.<sup>27</sup> Dubious reasoning, we say, because the sacrifice imposed on the individual depends on the property taken away from him, not on any theory of state activity. Professor Wagner's discussion is colored all through by this peculiar view of what he calls the fundamental principle of taxation.

Von Scheel takes about the same position as Wagner. He defines faculty as "the whole income (after deducting expenses of production) which can be demanded for purposes of taxation with due regard for the preservation of the standard of life."<sup>28</sup> This standard of life, says von Scheel, must be envisaged from the socio-political point of view. In order to enable the lower classes to preserve this standard, taxation must be progressive, for the lower down we go in the social scale, the smaller will be the proportion of income to standard of life. It is the function of the state to preserve the balance between the classes.<sup>29</sup>

The socio-political argument of Wagner and von Scheel has already been criticised.<sup>30</sup> We may, therefore, pass it over in this place. Much the same may be said of the very short discussion by Professor von Heckel in his re-

<sup>27</sup> Wagner, *op. cit.*, p. 455, and esp. 381-386.

<sup>28</sup> "Das Maas der Steuerkraft des Staatsbürgers ist sein gesammtes nach Abzug der sachlichen Produktionsauslagen für seinen Haushalt disponibles Einkommen, welches unter Berücksichtigung und Wahrung seiner Lebenshaltung für die Steuer in Anspruch genommen werden kann." v. Scheel, "Die progressive Besteuerung." In *Tübinger Zeitschrift für die gesammte Staatswissenschaft*, vol. 31 (1875), p. 284.

<sup>29</sup> *Ibid.*, pp. 288, 292-296.

<sup>30</sup> Above, pp. 130 *et seq.*

cent treatise on the subject.<sup>81</sup> Professor Cohn, in his admirably written work on the science of finance, also advocates progressive taxation,<sup>82</sup> but as it does not add anything of moment to Neumann's views, it also may be neglected here.

The Austrian economist, Meyer, defines faculty vaguely as the "whole of the economic conditions which make it possible or easy for the individual to get together the tax."<sup>83</sup> That is to say, we must regard not alone his property and income, but the various modes in which he acquires the income and the calls upon him for consumption, or his necessary expenses. As soon, however, as we pay regard to his wants, we are dealing with the idea of sacrifice. The principle of faculty receives its real interpretation only through the principle of equal sacrifice. But, asks Meyer, what does the principle of equal sacrifice mean? Sacrifice of what?

The common argument that a proportional tax causes a smaller sacrifice in the case of large than of small income, because it takes away the means of enjoyment only from the less urgent wants, proves too much. For the same thing is true of every progressive tax. It is a necessary consequence of the differences in the satisfaction of wants. If we should attempt to arrange taxes so that they would always cut off the means of satisfying equally pressing wants, it would be necessary to take from the larger income the whole difference between it and the smaller income. This, however, is obviously absurd. It

<sup>81</sup> M. v. Heckel, *Finanzwissenschaft*, i, 1907, pp. 184-185.

<sup>82</sup> Cohn, *Finanzwissenschaft*, 1889, § 212. Cf. the English translation by Veblen, under the title, *The Science of Finance*, 1895, pp. 310-332.

<sup>83</sup> "Die Gesammtheit der wirtschaftlichen Momente, welche der Wirthschaft die Aufbringung der Steuer ermöglichen oder erleichtern." R. Meyer, *Die Principien der gerechten Besteuerung*, 1883, p. 311.

would be communism, not justice.<sup>84</sup> In the same way Neumann's theory does not seem to Meyer convincing. It leads logically only to the clear-income theory, or to the exemption of a certain minimum with proportional taxation thereafter.<sup>85</sup>

Meyer endeavors to avoid these objections by declaring that the sacrifice in question consists not "in the intensity of the wants which remain unsatisfied, in consequence of the tax, but in the measure in which the tax increases the average intensity of the last wants actually satisfied."<sup>86</sup> He confesses that even this interpretation of equal sacrifice cannot serve as more than a probable proof of the necessity of progressive taxation. In the case of a low rate of tax, it is hard to say whether the sacrifices are equal or not. When we take high rates, however, the decision does not seem to him doubtful. In the case of a tax amounting to one-half or one-third of the income, a man who is reduced from \$1,200 income to \$600 or \$800 must beyond all question curtail his wants far more than he who was reduced from \$2,400 to \$1,200 or \$1,600. Inasmuch as it is legitimate to conclude that the effect of a smaller reduction of income will remain relatively the same, it may be asserted that the principle of equality of sacrifice connotes progressive taxation.<sup>87</sup>

This theory of Meyer has been discussed in the body of

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<sup>84</sup> Meyer, *op. cit.*, p. 331.

<sup>85</sup> This objection, as Cohen-Stuart, *Bijdrage*, etc., p. 119, points out, is not strictly true.

<sup>86</sup> Von dem hier vertretenen Standpunkte aus werden nun zwar die eben bekämpften Begründungen vermieden, indem wir das Opfer nicht in der Intensität der in Folge der Steuer unbefriedigt bleibenden Bedürfnisse, sondern in dem Masse erblicken, in welchem die durchschnittliche Intensität der letzten zur Befriedigung gelangenden Bedürfnisse in Folge der Steuer erhöht wird." Meyer, *op. cit.*, p. 332.

<sup>87</sup> *Ibid.*, p. 333.

this chapter.<sup>38</sup> We have seen that it rests on a misconception, and that in reality it does not alter the accepted theory in any important particular.

A recent ingenious attempt to defend progressive taxation against the common charge of arbitrariness has been made by the Scandinavian economist Cassell. Cassell starts out from the doctrine of the exemption of the minimum of subsistence, but he puts a different interpretation upon the old conception of "necessaries." The necessities of life, he thinks, differ with the grade of society. If, therefore, it is conceded "that a tax which is to produce an equal sacrifice must not take away any of those means which are needed to cover essential wants, then, for the sake of consistency, the deduction must be made greater for the higher classes of society."<sup>39</sup> Or, as he puts it in another place: "The income which it is necessary for a person's economical existence, increases on an average with the total real income, but naturally more slowly than this."<sup>40</sup>

This is due to the fact that by "necessaries" we must understand not the necessities of merely physical subsistence, but what Professor Marshall calls "the necessities of efficiency."<sup>41</sup> Thus in a very simple way we reach a mathematical and defensible scale of progression, for "if the deduction increases more slowly than the income, then clearly the remainder increases more rapidly than the income. A proportional tax levied on the remainder is thus a progressive tax on the total income." In other words, equal sacrifice means deduction of the

<sup>38</sup> Above, p. 213.

<sup>39</sup> Cassell, "The Theory of Progressive Taxation," in *The Economic Journal*, xi (1897), p. 481.

<sup>40</sup> *Ibid.*, p. 484.

<sup>41</sup> A. Marshall, *Principles of Economics*, 4th ed., p. 137.

necessaries of efficiency and a proportional tax on the remainder.

The weakness in this interesting attempt to solve the problem of precision lies in the indeterminateness of the test proposed. This is virtually recognized by Dr. Cassell himself when he tells us that "views will diverge considerably when it comes to the arithmetical determination of the necessities of efficiency of the different classes of society. If we allow very high margins for the fullest efficiency of the manual laborers, and for the lower middle class, we will get a very strong progression. On the other side, if we think that the lower classes need nothing more than they have, indeed can make no good use of more, we should perhaps limit their deductions to the barest minimum of physical subsistence, and thus come to a nearly proportional scale. We see thus that the two principles which struggle with one another in the battle of progressive taxation, the democratic and the plutocratic principle, are still acting with full force in the limited field we have allowed for the discussion."<sup>42</sup>

In reality, however, the limitation of the field to which Dr. Cassell refers is of very slight consequence when compared to the importance of the struggle between the two principles; for the range of a principle which leads either to "a very strong progression" or to a "nearly proportional scale" can not be called limited. As a matter of fact, therefore, the discussion is not materially advanced at all.

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<sup>42</sup> Cassell, *op. cit.*, pp. 487, 488.

### E. The Dutch Writers.

We come finally to the Dutch economists who have worked out the principle of progressive taxation through the application of the marginal utility theory to the doctrine of equal sacrifice. The most prominent have been Pierson, Treub, van der Linden and Bok.<sup>1</sup> Their arguments, however, are approximately identical, and have already been summed up.<sup>2</sup> Above all their chief theories have been supplanted by a more recent work, which deserves a fuller treatment. We refer to the book of Cohen-Stuart.

Cohen-Stuart begins with defining equality of sacrifice. Regarded from the subjective point of view, there are four consequences of a tax: (1) the sacrifice of the money taken; (2) the sacrifice of enjoyments which this money might have procured; (3) the sacrifice of the proportion which this amount of enjoyment bears to the total enjoyments at the disposal of the taxpayer—which he calls, for short, the sacrifice; (4) the moral effect produced, or the pain. With the latter economics has noth-

<sup>1</sup>The chief passages may be found in:

N. G. Pierson, *Grondbeginseelen der Staathuishoudkunde*, 2nd ed., (1886), p. 312. Also an article in *Gids*, February, 1888, esp. p. 308.

M. W. F. Treub, *Ontwikkeling en verband van de Rijks- Provinciale- en Gemeente-belastingen in Nederland*, 1885, p. 517.

Cort van der Linden, *De theorie der Belastingen*, 1887, pp. 89-100.

W. P. J. Bok, *De Belastingen in het Nederlandsche Parlement van 1848-1888*, 1888, pp. 177-178.

Two minor works are an article by A. W. Mees, "De progressieve inkomstenbelasting," in the (Dutch) *Economist*, 1889, p. 437; and Minderhoud to Sneek, "Bijdrage tot de Kennis der Inkomstenbelasting," in *Vragen van den Dag*, vol. iv (1889), no. 5.

<sup>2</sup>Above, p. 217 *et seq.*

ing to do. Now, equality of money sacrifice means that precisely the same sum be taken away from every one; equality of sacrifice of enjoyments means that all shall be deprived of equal enjoyments; equality of sacrifice means that everybody is to pay so much that the total enjoyment of each shall be diminished in relative proportion. That is, equality of sacrifice means "proportional sacrifice of enjoyments."<sup>3</sup> Cohen-Stuart takes a long time to explain this, but it is in reality nothing new, being precisely what Mill expressed in other words.<sup>4</sup>

Cohen-Stuart then discusses the idea of faculty (*draagvermogen*), and accepts von Scheel's definition. Faculty necessarily implies exemption of the minimum of subsistence; and since faculty is conditioned by equality of sacrifice, the demand of just taxation reads as follows: To tax the individual in such a way that, above all, the amount of enjoyments of which he is deprived through the tax may be proportional to the total amount of enjoyments attainable through his economic condition, deducting that part which consists in the satisfaction of his absolutely necessary wants.<sup>5</sup>

<sup>3</sup> "Gelijk geldoffer zoude dus verkregen worden, door ieder een gelijke som te laten opbrengen; gelijk genotsoffer, door ieder zooveel te laten opbrengen, dat allen een gelijke hoeveelheid genot derven; gelijk offer eindelijk, door ieder zooveel te laten betalen, dat het totale genot voor allen in dezelfde verhouding, evenredig dus, verminderd wordt, door m. a. w. te vergen een evenredige hoeveelheid genot." A. J. Cohen-Stuart, *Bijdrage tot de Theorie der Progressieve Inkomenstbelasting*, 1889, p. 33.

<sup>4</sup> Professor Edgeworth takes exception to this statement in his article on "The Theory of Taxation" in *The Economic Journal*, vii (1897), p. 557. But see above, pp. 214, 215.

<sup>5</sup> "De belastingschuldigen zoodanig te belasten, dat voor allen de hoeveelheid genot die zij door het betalen der belasting moeten derven, aan de totale hoeveelheid, direct tenegevolge van hun economischen toestand, verkrijgbaar genot, met uitzondering van dat, hetwelk in de vervulling der behoeften van nooddrift bestaat, evenredig zij." Cohen-Stuart, *op. cit.*, p. 58.

This problem, he thinks, can be solved only by mathematics, since the relation between enjoyment and income is really a mathematical relation. Adopting the nomenclature of his Dutch predecessors and of Jevons, he shows how the marginal utility of any commodity or of any quantity of income varies in some inverse ratio to the whole quantity. The curve which expresses this change he terms the line of utility (*nuttigheidslijn*). He takes for granted that the line of utility will gradually fall, but then proceeds to discuss the question whether this necessarily leads to progressive taxation.

We have already seen the acutely constructed tables<sup>6</sup> by which he proves that the arguments hitherto used may be turned into a defense of proportional, or of regressive, as well as of progressive taxation, and that progressive taxation cannot be declared to be a necessary result of a fall in the line of utility, in order to secure equality of sacrifice.<sup>7</sup> He then proceeds with his attempt to show how a definite rate of progression may be logically and mathematically constructed, and how progressive taxation may be rescued from the charge of arbitrariness. This constitutes the really constructive part of the work.

Cohen-Stuart starts with the hypothesis which was already made by Bernouilli, the Russian mathematician, in 1730, that the marginal utility of a definite part of income varies in inverse proportion to the total income; or in other words that the same percentage of income affords everyone an equal satisfaction, or that the owner of \$1,000 will feel the loss of \$1 just as little or as much as the owner of \$10,000 will feel the loss of \$10, or the owner of \$50,000 the loss of \$50. This would of course mean proportional taxation. If, however, we deduct a

<sup>6</sup>Above, pp. 219 *et seq.* Cf. the review of Cohen-Stuart's book in *Political Science Quarterly*, vol. vii (1892), p. 337.

<sup>7</sup>Cohen-Stuart, *op. cit.*, p. 123.

certain minimum of subsistence (which Cohen-Stuart thinks an indispensable condition in ascertaining real taxable ability), we should have the following scale of rates of taxation, worked out by him in detail:<sup>8</sup>

Income.	Minimum exempt, \$450.	Ratio of marginal to total ability 1 per cent.	Ratio, etc., 2 per cent.	Minimum exempt, \$500.	Ratio, etc., 1 per cent.	Ratio, etc., 2 per cent.
	\$500.....0.69		1.38	0.00		0.00
1,000.....1.38		2.73	0.69	1.38		
2,000.....2.06		4.07	1.38	2.73		
5,000.....2.95		5.82	2.28	4.50		
10,000.....3.62		7.11	2.95	5.82		
20,000.....4.29		8.39	3.62	7.11		
50,000.....5.16		10.05	4.50	8.80		
100,000.....5.82		11.30	5.16	10.05		
200,000.....6.47		12.51	5.82	11.30		
500,000.....7.32		14.10	6.67	12.90		
1,000,000.....7.96		15.28	7.33	14.10		

Cohen-Stuart next proceeds on the supposition that the actual line of utility differs from his hypothetical line. Taking the figures of the last line, and assuming that the actual line curves either more or less than this hypothetical line, he constructs the following three tables according as the marginal utility varies inversely as the cube root of the square or of the fourth power of the income. The truth, he thinks, certainly lies between these extremes:

#### TAXES WHICH ARE TO PRODUCE EQUALITY OF SACRIFICE.

Income.	According to the line of the greater curve.	According to the hypothetical line.	According to the line of less curve
\$500.....	\$10	\$10	\$10
1,000.....	25	20	16
2,000.....	64	40	25
5,000.....	220	100	46
10,000.....	555	200	74
20,000.....	1,400	400	117
50,000.....	3,500	1,400	293
100,000.....	7,000	2,000	585
500,000.....	35,000	10,000	2,925
1,000,000.....	70,000	20,000	5,850

<sup>8</sup> *Op. cit.*, p. 132.

It might appear that with these great variations in the figures the rate of progression of the tax would be very different. This, however, is not the case. In order to make a comparison he assumes that an income of \$5,000 pays in each case a tax of four and a half per cent, with \$500 exempted as minimum for subsistence. The result would then be as follows:

Income.	According to the line of greater curve.	According to the original line.	According to the line of less curve.
\$500.....	0.00	0.00	0.00
1,000.....	1.04	1.38	1.75
2,000.....	2.30	2.73	3.13
5,000.....	4.50	4.50	4.50
10,000.....	6.57	5.82	5.29
20,000.....	9.11	7.11	5.92
50,000.....	10.33	8.80	8.27
100,000.....	11.19	10.05	10.06
200,000.....	12.01	11.30	11.82
500,000.....	13.08	12.90	14.09
1,000,000.....	13.88	14.10	15.76

We see what a striking similarity in the percentages results, notwithstanding the great differences in the taxes paid. Since he has chosen two extremes, Cohen-Stuart thinks that he is justified in asserting that the mean (from which the extremes vary so little) is approximately the correct scale of progressive taxation.

In other words, the conclusion is that when we neglect the minimum of subsistence, the theory of equality of sacrifice must result in a progressive scale which does not greatly vary from the original hypothetical scale, as long as we do not reach the very large incomes. In the case of very large incomes the rate of progression tends to decrease until the progression turns into proportion. Thus, the general rule may be laid down: Arithmetical increase of the rate with geometrical increase of the income up to

a definite point when progression is replaced by proportion.<sup>9</sup>

The investigations of Cohen-Stuart are acute and suggestive, but it cannot be said that he proves his point, or that he is able to lay down an approximately exact necessary scale of progression. His original table is confessedly only hypothetical and arbitrary; and it is difficult to see how three hypothetical scales can prove the existence of one real scale. All three may be perfectly justifiable or completely unjustifiable in themselves; but the mere fact that they approximately agree does not in the least prove that any of them is correct. They may all be wrong. We do not know whether the marginal utility is inversely proportional to the income, or to the cube root of the square, or to the cube root of the fourth power, or of any power of the income. One table is as good as another, but each is equally incapable of proof. Cohen-Stuart's tables depend not only on the arbitrary assumption of a definite ratio of marginal utilities, but also on the equally arbitrary assumption of a definite minimum of subsistence. As soon as we exempt a different minimum, or do not exempt any minimum at all, the scale is altogether changed. To measure the amount of sacrifice in such a manner as to produce a mathematical equality of rate is quite impossible. Mathematics cannot help us here, because the very first conditions fail us—the power to gauge with precision the mathematical relation of the marginal utilities. Psychological relations cannot be reduced to exact quantitative forms. Thus Cohen-Stuart's

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<sup>9</sup> "Arithmetische klimming van het percentage bij geometrische klimming van het inkomen, zoolang men niet in zeer hooge percentages komt." *Op. cit.*, p. 168.

laborious investigations do not succeed in creating anything more positive than did those of his predecessors.<sup>10</sup>

\* The essay of Graziani, "La Ragione progressiva del Sistema Tributario in rapporto al Principio del Grado Finale d'Utilita," in *Giornale degli Economisti*, Serie Seconda, Anno ii, (1891), p. 156, follows the work of Cohen-Stuart, and accepts his conclusions, without recognizing the inherent weakness of the argument. In a later work, however, Graziani parts company with Cohen-Stuart, for the reasons mentioned above, but still upholds progressive taxation, basing his defense on the proposition that progressive taxation is necessary in order to attain equality of value, when the diminution in the marginal grade of utility takes place, not in the same proportion as the increase of income, but in a greater proportion. (See Graziani, *Institutioni di Scienza delle Finanze*, 1897, p. 304.) On the other hand, the work of the Spanish economist Piernas-Hurtado, *Tratado de Hacienda Pública*, 1891, confesses that no exact or mathematical relation can be established. But the author nevertheless posits the principle of "liquid assets," *haberes líquidos*, as the basis of taxation, meaning by this a determination of the individual economic situation, as gauged by the necessary expenses. This, he thinks, means neither proportional nor progressive taxation, but an adjustment to each individual case. Cf. vol. i, pp. 302, 312. This is obviously too vague to be made the basis of a scientific discussion.

#### F. Recent English and American Writers.

More recently another interpretation of the sacrifice theory has been advanced by Professors Edgeworth and Carver. Professor Edgeworth claims<sup>1</sup> that the real ethical principle is not equal sacrifice but minimum sacrifice. Starting from the Benthamite utilitarianism, he contends that the greatest happiness principle implies that "the total net utility theory procured by taxation should be a maximum." This, however, he thinks "reduces to the contention that the total disutility should be a minimum." It follows from this "in general that the marginal disutility incurred by each tax payer should be the same."<sup>2</sup> Hence, instead of "equal sacrifice" we should speak of "equi-marginal sacrifice,"<sup>3</sup> i. e. that the margin of sacrifice of each should be the same. Since the sacrifice of each would at this point be the least in amount, we have the realization of the principle of "minimum sacrifice."

Professor Edgeworth is too keen a thinker not to realize what this implies. He tells us that the "solution of the problem is that the higher incomes should be cut down to a certain level," or that "the richer should be taxed for the benefit of the poorer up to the point at which complete equality of fortunes is attained." Yet as a practical man he shrinks from this conclusion. "The acme of socialism is thus for a moment sighted; but it is immediately clouded over by the doubts and reservations." The "enormous interposing chasms which deter practical wisdom from

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<sup>1</sup> "The Pure Theory of Taxation," in *Economic Journal*, vii (1897), pp. 551-571.

<sup>2</sup> *Op. cit.*, p. 553.

<sup>3</sup> *Op. cit.*, p. 564.

moving directly toward that ideal" are, according to Professor Edgeworth, the dangers of any forcible equalization of wealth which appeared to Sidgwick to consist in a diminution of production and an increase of population,<sup>4</sup> and to Mill to consist in the menace to liberty.

The objection will at once arise that a theory which according to the confession of its author is so completely inapplicable is perhaps of no real validity. Its impracticability renders it subject to grave suspicion. Moreover, as has been well pointed out by Dr. Weston,<sup>5</sup> not only is it by no means certain, even from the standpoint of "pure theory" that the largest sum total of utility is the real aim of political action, but it is also true that the minimum-sacrifice theory assumes as a basis of action a principle which is quantitatively as indeterminable as anything that is to be found in the equal-sacrifice theory of Mill, Sax or Meyer. As Weston furthermore says, it is "strange that one who is *par excellence* a mathematical economist should find satisfaction in a theory based on a principle that does not even permit of an exact mathematical expression," since, in the words of Edgeworth himself, "the reasoning from the principle of minimum sacrifice assumes no exact relation between utility and means."<sup>6</sup>

The minimum-sacrifice theory is thus really not a whit more successful than the equal-sacrifice theory and possesses the additional disadvantage of being less applicable to the problems of actual life.

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<sup>4</sup> It might appear from Professor Edgeworth's statement that Sidgwick approved of the minimum sacrifice theory. This is, however, not the fact. See above, p. 262.

<sup>5</sup> Stephen F. Weston, *Principles of Justice in Taxation*, in *Columbia University Studies in History, Economics and Public Law*, vol. xvii, no. 2, (1903), p. 205.

<sup>6</sup> Edgeworth, *op. cit.*, p. 567.

Professor Carver, who reached similar conclusions at almost the same time, but in an independent fashion, lays down the principle somewhat differently.<sup>7</sup> According to Professor Carver the really logical equality of sacrifice is the equality of marginal sacrifice, which is only another way of putting the principle of minimum sacrifice. The true criterion of justice in the distribution of the burdens of taxation is, according to him, the least evil to the least number. The evils of taxation, however, are two-fold—the sacrifice to those who pay the taxes and the repression of industry and of enterprise which the taxes occasion. The minimum of repression is secured by an equality of sacrifices; but the minimum of total sacrifice is attained by an extreme form of progressive taxation, which results in the greatest inequalities of sacrifice and which would have the most violent and disastrous repressive consequences. Hence sacrifice alone cannot be considered as the most important consideration, and it is only by combining the two points of view that we can reach a practical progressive scale.<sup>8</sup>

In another place, however, Professor Carver puts his thought a little differently. There are really two kinds of sacrifice—the direct sacrifice to the individual in having his income curtailed by the amount of the tax, and the indirect sacrifice. Any tax, which represses a desirable industry or form of activity, imposes a sacrifice not only upon him who pays it, but also upon those who are deprived of the services or the products of the repressed industry. Taxes should, therefore, be apportioned in such a way as to impose the smallest sum total of sacrifice of

<sup>7</sup>T. N. Carver, "The Ethical Basis of Distribution," in the *Annals of the American Academy of Political and Social Science*, vi (1895), p. 97; and "The Minimum Sacrifice Theory of Taxation," in the *Political Science Quarterly*, xix (1904), pp. 66-79.

<sup>8</sup>*Annals of the American Academy*, vi, p. 99.

these two kinds.<sup>9</sup> This means a moderately progressive rate, because the drastic scale which would follow from the principle of direct sacrifice would have to be counterbalanced by the somewhat composite scale which would ensue from the principle of indirect sacrifice.

The weakness of this ingenious argument is due to the fact that the indirect sacrifice of which Professor Carver speaks has no necessary relation to the progressive scale. The repressiveness of a tax is due far more to the nature of the tax than to any scale of graduation. In the case of certain taxes on production a high proportional tax would be exceedingly repressive; while in the case of other taxes, not even a progressive tax would be repressive. As Professor Carver himself points out, a progressive tax on land would not repress ownership of land, a progressive tax on inheritances would not repress inheritance. The same argument might be applied to general income taxes, where the incomes cannot be brought into relation with any particular kind of production, and where a progressive rate would thus not repress any particular product. The argument, moreover, would equally apply to a general property tax, where the tax is assessed on no particular class of property, but on the total wealth of the individual.

We must not confuse the two largely disparate facts. The indirect sacrifice of which Professor Carver speaks may have no connection at all with the direct sacrifice of the taxpayer, and according to Professor Carver's own doctrine there is no reason why taxes on general property or income or land or inheritances should not be arranged according to a well-nigh confiscatory scale.<sup>10</sup> The mini-

<sup>9</sup> *Political Science Quarterly*, xix, p. 72.

<sup>10</sup> "A progressive tax is therefore to be commended unless the rate of progression is made so high as to discourage the receivers of large incomes from trying to increase them." *Political Science*

mum-sacrifice theory thus to all intents and purposes becomes equivalent to the confiscatory or socialistic theory which has been discussed above.

Hence neither in the version of Professor Edgeworth nor in that of Professor Carver does the doctrine of minimum sacrifice afford us any real help or constitute any improvement upon the doctrine of equal sacrifice.

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*Quarterly*, xix, p. 79. No tax short of one hundred per cent would completely discourage this, and at all events it would take far more than the "moderately progressive tax," of which Professor Carver speaks, to accomplish this result.

## CHAPTER IV.

### CONCLUSION.

We have thus far learned the chief arguments urged for and against progressive taxation. We have seen the inadequacy of the socialistic as well as of the compensatory theories in favor of, and the weakness of the benefit theory in opposition to, the doctrine of progression. We have analyzed more closely the equal-sacrifice doctrine and have found that it is inadequate to serve as the basis of a definite and infallible scale of progression. Are we then to abandon progressive taxation in theory?

Before answering this question, it will be desirable to revert to the fundamental conception of faculty or ability, which is after all the best standard we have of the measure of general obligation to pay taxes, and to seek to ascertain what the faculty theory in its wisest interpretation can teach us in the matter.

President Walker's definition of faculty is well known.<sup>1</sup> Faculty, says he, is "the native or acquired power of production." If, however, we analyze faculty more closely, in the sense in which we instinctively use the word in tax matters, we see that it means something more than that. It not only implies native or acquired power of production, but includes at least also the opportunity of putting these powers to use, as well as the manner in which the powers are actually employed and the results of their use as measured by the periodical or permanent accretion to the producer's possessions. We have seen how the original idea was that represented by President Walker, but how this

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<sup>1</sup>F. A. Walker, "The Bases of Taxation," in *Political Science Quarterly*, iii (1888), p. 14.

was soon supplanted by the more real and practicable tests, first of property (or permanent accretion), then of income (or periodical accretion). But, furthermore, faculty connotes an additional conception. It means not only powers of production or results of powers of production, but also the capacity to make use of these powers or of these results—the capacity in other words of enjoying the consequences of the exertions. It is this latter conception which has been developed by recent writers, although they have carried it to an extreme just as one-sided as that represented by the advocates of the earlier theories. The elements of faculty, then, are two-fold—those connected with acquisition or production, and those connected with outlay or consumption. What is the application to the topic in hand?

If we regard only the first set of elements, it is evident that the possession of large fortunes or of large incomes in itself affords the possessor a decided advantage in augmenting his possessions. The facility of increasing production frequently grows in more than arithmetical proportion. A rich man may be said to be subject to a certain sense to the law of increasing returns. The more he has, the easier it is for him to acquire still more. The initial disadvantages have been overcome. This was emphasized already by Adam Smith, when he said: "A great stock, though with small profits, generally increases faster than a small stock with great profits. Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little."<sup>2</sup> In fact the same idea was originally pointed out by Rousseau two decades earlier as an additional argument for progressive taxation. "The difficulty of acquisition," he tells us, "always grows in pro-

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<sup>2</sup> *Wealth of Nations*, book i, chap. 9.

portion to one's needs. Nothing is made with nothing: that is as true in business as in physics. Money is the seed of money, and the first pistole is sometimes more difficult to earn than the second million."<sup>8</sup> While the native power of production in other words remains as before, this "acquired power" has greatly augmented. Hence, from the point of view of production faculty may be said to increase more rapidly than fortune or income. This element of taxable capacity would hence not illogically result in a more than proportionate rate of taxation.

On the other hand, the elements of faculty which are connected with outlay or consumption, bring us right back again to the sacrifice theory. While the idea of faculty includes that of sacrifice, however, the two ideas are not coextensive. Faculty is the larger, sacrifice the smaller conception. Faculty includes two sets of considerations, sacrifice only one. While the sacrifice theory in itself, as we have seen, is not sufficiently cogent to lead to the demand for any fixed scale of progression, its influence in the other direction is assuredly not strong enough to outweigh the productive elements of faculty, which seem to imply progressive taxation. In fact, we may go farther and say that the sacrifice theory, or consumption element in faculty, can certainly not be used as an argument inevitably leading to proportional taxation. If it does not necessarily lead to any definite scale of progression, much less can it necessarily lead to a fixed proportional taxation. But if we never can reach an ideal, there is no good reason why we should not strive to get as close to it as

<sup>8</sup> "La difficulté d'acquérir croit toujours en raison du besoin. On ne fait rien avec rien; cela est vrai dans les affaires comme en physique; l'argent est la semence de l'argent, et la première pistole est quelquefois plus difficile à gagner que le second million." Rousseau, *Discours sur l'Oeconomie Politique*, 1758, p. 63. See above pp. 192-4.

possible. Equality of sacrifice, indeed, we can never attain absolutely or exactly, because of the diversity of individual wants and desires. It is nevertheless most probable, however, that in the majority of normal and typical cases, we shall be approaching more closely to the desired equality by some departure from proportional taxation. In certain cases even, regressive taxation might accomplish the result best, in other cases proportional taxation would be the most serviceable. If we take a general view, however, and treat of the average man—and the government can deal only with classes, that is, with average men—it seems probable that on the whole less injustice will be done by adopting some form of progression than by following the universal rule of proportion. A strictly proportional rate will make no allowance for the exemption of the minimum of subsistence. It will be a heavier burden on the typical average poor man than on the typical average rich man. It will be apt to be felt with relatively more severity by the average man who has only a small surplus above socially necessary expenses, than by the average man who has a proportionally larger surplus. It will in short be likely in normal cases to curtail disproportionately the enjoyments of different social classes.

Hence, if we base our doctrine of the equities of taxation on the theory of faculty, both the production and the consumption sides of the theory seem to point to progressive taxation as at all events neither more illogical nor more unjust than proportional taxation. It may, indeed, frankly be conceded that the theory of faculty cannot determine any definite rate of progression as the ideally just rate. To this extent there seems to be some truth in Mill's contention that progressive taxation cannot give that "degree of certainty" on which a legislator should act; as well as in McCulloch's assertion that when we abandon

proportion we "are at sea without rudder or compass."<sup>4</sup> It is true that proportion is in one sense certain, and that progression is uncertain. The argument, however, proves too much. An uncertain rate, if it be in the general direction of justice, may nevertheless be preferable to a rate which, like that of proportion, may be more certain without being so equitable. Half a loaf is better than no bread. Stability is assuredly a good thing. It is highly questionable, however, whether a stability which is necessarily unjust is preferable to an instability that works in the general direction of what is recognized as justice. All governmental actions which have to do with money relations of classes are necessarily more or less arbitrary. The fines imposed by the courts, the fixing of the rates of import duties or of excise taxes are always, to a certain extent, inexact. In truth, a strict proportional tax, if we accept the point of view mentioned above, is really more arbitrary as over against the individual taxpayers, than a moderately progressive tax. The ostensible "certainty" hence involves a really greater arbitrariness.

In the same way, the other arguments often advanced against progression seem to be in some measure destitute of foundation.<sup>5</sup>

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<sup>4</sup>This familiar argument, as to the arbitrary character of progressive taxation, is, perhaps, best put by Lecky, *Democracy and Liberty*, i, p. 286 *et seq.*

<sup>5</sup>The objections commonly urged are well summed up in Bastable, *Public Finance*, 1892, pp. 285-289; 3rd ed., 1903, pp. 308-313. They are also impressively catalogued in the brief of ex-President Harrison, Messrs. Guthrie and Prussing, acting as counsel for plaintiffs in the Illinois Inheritance Tax Cases, before the Supreme Court of the United States in 1897. See esp. pp. 42 *et seq.* of the brief, as well as the oral arguments of Messrs. Guthrie and Harrison.

Among the more important of the earlier arguments opposed to progressive taxation must be mentioned those advanced at the time of the French Revolution, especially by Dauchy, Saint-Aubin and Jollivet. Cf. Dauchy, *Rapport contre le Système de l'Impôt Pro-*

The most common objection is that of confiscation. This can be traced back as far as the time of Guicciardini. Confiscation, he thinks, is an inevitable result of progressive taxation. "It lies in the nature of things that the beginnings are slight, but unless great care is taken the rates will multiply rapidly, and finally reach a point that no one

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*gressif fait à la Séance du 10 Frimaire, an IV (Dec. 1, 1795); Saint-Aubin, Encore quelques Réflexions sur l'Emprunt Forcé, n. d. (1795); Jollivet, De l'Impôt Progressif et du Morcellement des Patrimoines, an V (1796); Jollivet, Pétition au Conseil des Cinq Cents contre l'Emploi des Progressions dans les Contributions et les Emprunts Forcés, II Thermidor an VII (1798).* Jollivet, who made the most elaborate attempt to refute the progressive principle, sums up his objections as follows:

"Il détache l'individu de l'exercice de son industrie et du droit de propriété qui en est la récompense.

"Il est contraire au pacte social et à la constitution.

"Il corrompt toutes les classes de la société, riches et pauvres.

"Il détruit successivement les productions de la nature et de l'industrie par la division et le morcellement à l'infini des patrimoines; de-là la disette, puis la famine.

"Il augmente l'intérêt de l'argent.

"Il viole ouvertement le principe de l'égalité proportionnelle entre les localités et les communes.

"Il intervertit les fortunes, en rendant plus riches qu'un autre celui qui l'était moins.

"Il porte la corruption jusques dans ses propres agens.

"Il dégrade les autres contributions publiques, et conduit très rapidement à la banqueroute.

"Il apprend aux hommes à se mieux dérober à l'impôt.

"Il éteint en eux l'amour de la patrie.

"Cet impôt est donc le plus redoutable ennemi, l'adversaire le plus dangereux que la malveillance puisse jamais opposer à l'établissement ou à la conservation de la république.

"Qu'est-ce donc l'impôt progressif. Une loi agraire déguisé impossible à réaliser. Veut-on insister . . . Alors l'impôt progressif se détruit de lui-même, il ne peut avoir aucune durée, en un mot, il porte avec lui son principe de destruction, puisque sa matière imposable doit se dérober successivement à tous les égards, et disparaître enfin par la division et le morcellement des patrimoines.

"Ainsi donc, en dernière analyse, c'est le vautour déchirant ses propres entrailles." *De l'Impôt Progressif*, pp. 94-96.

could have foreseen.<sup>6</sup> The natural result of this is that virtue, industry and application are replaced by laziness, rapacity, treachery, foul words and worse deeds.<sup>7</sup> All of which things are as sweet morsels to the taste, the effects of which, however, will finally show that we have been dealing with a poison."<sup>8</sup> Although the substance of this argument has frequently been repeated in modern times, the objection that progression is confiscation because it must finally end by swallowing up the entire capital may be obviated, as we have seen, by making the rate of progression itself degressive; so that it would become impossible to reach one hundred per cent or any like percentage of large fortunes.

The objection that it is a fine imposed on industry and saving is really applicable not to progressive taxation as such, but to the whole system of taxation on property or income. The logical conclusion from this would be the demand for taxation only on expense; and even that would be to a certain extent a tax on industry. It is difficult to see, however, why industry and saving should not be taxed, if they increase capacity to pay taxes; and it is still more difficult to see how we can avoid taxing indus-

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During the revolution of 1848 the objections to progressive taxation were again vigorously advanced in France, especially by Parieu in a legislative committee report, and by Servière and Charency in the legislature. These are all summed up and discussed in detail by Vauthier, *De l'Impôt Progressif*, 1851, pp. 9, 55. As to Parieu, see above, p. 231.

"E la natura delle cose che i principii cominciano piccoli; ma si l'uomo non avvertisce, moltiplicano presto e scorrono in luoglio che poi nessuno a tempo provvedervi." Guicciardini, p. 337. Cf. *op. cit.*, above on page 135.

"D'onde in luogo della virtù, della industria, dello affaticarsi, nascono ozio, rapacità, ignavia e male parole e peggiori fatti."

"Le quali cose paranno al gusto cibi dolci, ma gli effetti mostriano alle fine che sarà stato veleno."

try. Furthermore, it is a mistake to assume that larger fortunes are always the result of individual saving. The argument, in short, is not an argument against progression, but against taxation in general. If a moderately progressive tax is really more equitable than a strictly proportional tax, progression will be less of a fine on thrift and industry than proportion would be.

Again, the argument that progressive taxes are not productive of revenue is of slight weight. The contention has never been urged that progressive taxes yield less than proportional taxes; at most it has been claimed simply that they do not yield more. The function of progressive taxation, however, as has already been pointed out in a previous chapter, is not so much to secure increased revenue as to apportion the burden more equably among the taxpayers. If it is conceded that the progressive tax is more equitable than the proportional tax it is quite immaterial whether it yields more revenue or not.

Finally, a somewhat widespread objection to progressive taxation is contained in the argument which has been well put by Lecky, when he tells us that highly graduated taxation realizes most completely the supreme danger of democracy, creating a state of things in which one class imposes on another burdens which it is not asked to share, and impels the state into vast schemes of extravagance under the belief that the whole cost will be thrown upon others. "The belief is no doubt very fallacious, but it is very natural, and it lends itself most easily to the claptrap of dishonest politicians. Such men will have no difficulty in drawing impressive contrasts between the luxury of the rich and the necessities of the poor, and in persuading ignorant men that there can be no harm in throwing great burdens of exceptional taxation on a

few men, who will still remain immeasurably richer than themselves."<sup>9</sup>

The same point has been urged by an American, Mr. W. D. Guthrie, in an argument opposing the constitutionality of the so-called "Dudley Bill" passed by the Legislature of New York in 1897, providing for a progressive inheritance tax, and which was in consequence vetoed by Governor Black. "The great danger of all democracies," says Mr. Guthrie, "is that one class votes the taxes for another class to pay. Heretofore, our bulwark has been that, as all taxes were equally and uniformly imposed, classes could not be discriminated against, and this protected all. . . . Introduce the policy of graduated taxes, establish the doctrine that they are permissible under our system, and the whole burden of taxation can be thrown on a few rich."<sup>10</sup> To this argument, which is obviously political rather than economic in character, it may be replied that the fears here expressed have not been realized in practice, and that the reasoning, if carried to its logical conclusion, would result in a complete distrust of democratic government as such. There is no advantage in conjuring up fanciful dangers which have been disproved by experience.

While the theoretical objections to progressive taxation are thus in large measure destitute of foundation, it is possible to draw only this rather vague conclusion as to the general legitimacy of the principle of progression.<sup>11</sup>

<sup>9</sup> Lecky, *Democracy and Liberty*, i, p. 287.

<sup>10</sup> *Argument of William D. Guthrie, submitted to the Hon. Frank S. Black, Governor of the State of New York, in opposition to the Dudley Bill, imposing a graduated inheritance or transfer tax, 1897*, pp. 16, 17.

<sup>11</sup> This is also the conclusion of Armitage-Smith in his *Principles and Methods of Taxation*, 1906, p. 52: "On the whole the argument for graduation on a rational and moderate scale seems to be valid: it helps to satisfy the demands of equity and productiveness, if the

The practical application of the principle on the other hand depends on a series of important considerations.

In the first place we are confronted by the question of incidence. If the theory of general diffusion of taxation be true, it makes no difference whether we levy a proportional or a progressive tax. For, since the tax would ultimately be shifted to the consumer, the taxpayer would not be injured, while the consumer would bear the tax only in proportion to what he consumed. It is a singular fact that this questionable procedure of the advocates of the diffusion theory has always been overlooked. For the most heated opponents of progressive taxation have been, like Thiers, advocates of the diffusion theory of taxation, without perceiving the weakness of their position. The diffusion theory of taxation, however, we know to be far from correct.<sup>12</sup> Nevertheless, to the extent that taxes really are shifted from the taxpayer, the problem of progression loses its importance. For if taxes are actually shifted, the rate in the first instance is of no essential consequence. It is only in so far as we assume that so-called direct taxes remain where they are put, that the considerations of faculty or ability are of any weight. How far this assumption is true has been investigated in another place. For the purpose of the theoretical discussion it may be taken for granted that the problem of progression *versus* proportion must be treated on the hypothesis that the assumption is true. When we come to construct a progressive scale in practice, however, we must be careful to ascertain how far the assumption conforms to reality. A progressive scale of taxation which does

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principle be limited to a few direct taxes in a mixed system. It is also the general conclusion of Professor Henry C. Adams in his *Science of Finance*, 1898, pp. 352-353.

<sup>12</sup> See Seligman, *On the Shifting and Incidence of Taxation*, 2nd ed., 1899.

not reach individual faculty at all is as unnecessary as it is illogical.

Secondly, the defence of progression rests on the theory that it is applicable to general taxation, taken as a whole. It is based on the assumption that taxes are paid out of revenue, and that the whole system is framed with this end in view. It is obviously an immensely difficult task, however, to shape a whole system of taxation so that the average general rate will be a moderately progressive one. Actual systems of taxation are of the most varied kinds. In some taxes it is impracticable to introduce a progressive scale, as they are by their very nature proportional, so *e. g.*, tithes or poll taxes,—for a graduated poll tax is really not a poll tax at all but a class tax. In other cases the taxes in actual life are even regressive, as in the case of many of the indirect taxes. It would be impossible thoroughly to carry out the principle of general progression unless we had a single universal income tax, or a single property tax. But no prominent writer to-day favors a single income tax, or a single property tax, or for that matter a single tax of any kind. Thus in advocating the system of progression we must have regard to the facts of the individual case, and to the general sentiment of the community. In the United States, for instance, the general property tax in its practical operation is largely regressive, especially in so far as personality is concerned. The tax reformers have quite enough to occupy their attention in the endeavor to make the rate really proportional, before bothering themselves with the more ideal stage of progression. It is all the more worthy of consideration, however, whether other taxes may not properly be levied according to the progressive principle. It is more than likely that a number of moderate progressive taxes would after all simply

result in securing an average proportional rate for the whole system of taxation. We have in fact seen<sup>18</sup> that some defenders of proportion in theory admit the legitimacy of certain progressive taxes as a compensation for other really regressive taxes. In practice, then, it is possible frequently to demand progressive taxes without being at all so extreme or so "communistic" as many persons believe.

Thirdly, the defence of progressive taxation rests on the assumption of faculty as the basis of taxation. While this is indeed true of taxation as a whole, for general state purposes, it is questionable whether the principle of benefits is not of some weight in problems of purely local and municipal finance. A discussion of the contest between these two principles and of the limits of their relative applicability to different phases of public revenues would take us too far astray here. It may, however, be said that it is coming more and more to be recognized that within the domain of the taxing power the principle of benefits should be followed to some extent in strictly local finance.<sup>19</sup> If this is true, the principle of progression will be of rather more limited application to some of the charges employed for the support of local government; for the theory of benefits, as we have seen, leads logically to proportion, not to progression. Thus the practical sphere of the applicability of the progressive principle would be even more circumscribed.

Finally, it must not be overlooked that high rates of progression may engender or augment attempts at fraud and evasion. That this is possible cannot be denied. As has already been pointed out,<sup>20</sup> however, the danger is

<sup>18</sup> Above, p. 147.

<sup>19</sup> For a discussion of these points see the chapter on "The Classification of Public Revenues" in Seligman, *Essays in Taxation*.

<sup>20</sup> Above, p. 75.

apt to be greatly exaggerated. We know that there is certainly more fraud in the countries of proportional taxes like America than in the home of progressive taxes like Switzerland or Germany. Nevertheless, it may be conceded that with progressive rates there would probably be still more fraud than actually exists, even though the fears of the doubters in Australia and Switzerland have not been realized.<sup>16</sup> Much depends on the manner in which progression is applied, and on the particular tax to which it is extended. Still more depends on the rate of the progression. The higher the progression the greater the likelihood that the results will be perceptibly bad. The objection, however, is really one against the abuse, not the use, of the progressive principle.

If, therefore, we sum up the whole discussion, we see that while progressive taxation is to a certain extent defensible as an ideal, and as the expression of the theoretical demand for the shaping of taxes to the test of individual faculty, it is a matter of considerable difficulty to decide how far or in what manner the principle ought to be actually carried out in practice.

Theory itself cannot determine any definite scale of progression whatever. While it is highly probable that the ends of justice would be more nearly subserved by some approximation to a progressive scale, considerations of expediency as well as the uncertainty of the interrelations between various parts of the entire tax system should tend to render us cautious in advocating any general application of the principle. It remains to investigate as to how far the principle is applicable to the conditions surrounding us in America to-day. In last resort, however, the crucial point is the state of the social consciousness and the development of the feeling of civic obligation.

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<sup>16</sup> Above, pp. 76, 124.

PART III.  
**APPLICATION OF THE PROGRESSIVE  
PRINCIPLE TO AMERICAN TAXATION.**



### *§ 1. The General Property Tax.*

The preceding discussion has brought us to a general, but somewhat vague, conclusion in favor of the theory of progressive taxation. Economists, however, must deal with what is actually practicable, as well as with what is ideally true. It is with this practical object in view that we now proceed to a consideration of the progressive principle in the light of the concrete facts of American public finance.

In the case of the general property tax, the progressive principle would seem to be of doubtful expediency, for several reasons. In the first place, the tax as actually administered is not progressive nor even proportional, but regressive. Our attempt to tax intangible personality leads to a heavier burden on those who are at the same time honest and fairly well-to-do than on those who happen to be both dishonest and wealthy. Since the temptations to evade the tax are likely to grow with its size, it may be assumed that fraud will increase in proportion to wealth. To augment the tax rate on the wealthier would therefore simply increase dishonesty. Progressive taxation of personal property would result in the less well-to-do classes bearing a still greater proportion of the taxes than they do at present. Instead of greater equality we should have greater inequality. Progressive taxation of personality under actual conditions would be an utter delusion.

Secondly, progressive taxation of real estate would demand, as a preliminary condition, a complete reform of most of our tax-laws. As a general rule the American commonwealths do not pay any attention to the ques-

tion whether or not the realty is mortgaged. They generally tax the landowner on the full value of the land, and very frequently tax the mortgagee in addition on the amount of the mortgage. Now, unless we exempt the value of the mortgage from the value of the land, a progressive rate on realty would create far more inequality than exists at present. Let us assume two land-owners, A, the owner of a \$10,000 farm mortgaged for \$5,000, and B, the owner of a \$100,000 farm mortgaged for \$95,000. The equity is the same in each case, and under a rational system of taxation both A and B would pay on only \$5,000.<sup>1</sup> Each would then be taxed on what he really has, in lieu of on what he has not. The prevalent American system, however, makes of the tax on real estate a real tax, not a personal tax: that is, the tax is levied not on the landowner as such, but on the land. If it were levied on the landowner the tax would be a personal tax, that is, a tax on the person, and the government would be bound to take account of the existing debts. But as it is usually levied on the land, instead of on the owner, the government looks to the land alone and maintains that the personal condition of the owner is immaterial. If a progressive tax were introduced, A would pay, let us say, two per cent on \$10,000 or \$200, while B might pay five per cent on \$100,000 or \$5,000. B's entire equity would thus be swallowed up by the tax, and although he is actually in no better condition than A, he would have to pay not five times, but twenty-five times as much. Pro-

<sup>1</sup> Unless, indeed, the mortgages in the hands of the mortgagees are exempt. In this case the government would be justified in making the land contribute its share; for it is immaterial to the mortgagor whether he pay the tax directly to the government, or indirectly by being charged a higher rate of interest on the loan, in case the mortgagee is taxed. Cf. *Essays in Taxation*, p. 35, and the limitations of the theory in the monograph *On the Shifting and Incidence of Taxation*, 2nd ed., 1899, pp. 266-268.

gressive taxation under the existing system of real estate taxation would thus be a gross injustice, utterly ruinous to a large class of farmers. For whatever may be true as to the shifting of a proportional tax on land, it is evident that a progressive tax of this kind at all events can not be shifted. In fact every treatise thus far written on the incidence of taxation takes it for granted that we are dealing with a proportional tax. It would be interesting to trace in detail the qualifications to be introduced in the theory of incidence in the case of progressive rates, not only in the property tax, but in other taxes as well.

Thirdly, the very fact that the property tax is in great part a real tax would militate against the introduction of the progressive principle. The basis of progressive taxation, as we have seen, is the faculty theory of taxation, resolved into its elements of consumption and production. A progressive property tax can be defended only on the assumption that faculty increases with general property. When, however, in place of assessing the tax on the individual as such, we assess it on his realty wherever it lies, and on his personality wherever we can locate it, we are looking not at the individual, but at the taxable object. The owner of a large piece of real estate may as a matter of fact possess less faculty or ability to pay taxes than the owner of a small plot, because he may have very much less personality. If we could reach personality as well as realty then, indeed, it would be immaterial. Since personality, however, evades taxation in the ratio of its extent and of the amount of the tax, a progressive tax on realty, under existing conditions, might intensify the actual inequalities. To tax A, the owner of a \$10,000 farm (who has perhaps \$1,000 personal property), five per cent, and to tax B, the owner of a \$1,000 lot (who has the remainder of his large fortune invested in intangible personality,

on which he pays nothing), only one per cent would be a travesty of justice.

Fourthly, the chief practical objection to the introduction of the progressive principle is that it would be exceedingly difficult to apply it to the taxation of real estate, if the prevalent method of assessing the tax as a real tax be followed. The tax varies with the value of the lot, not with the property of the lot owner. Lot A may be worth more than lot B, but lot A may be owned by two persons, and lot B by only one person. Or the owner of the smaller lot B may have a hundred other small lots in other parts of the city, while the owner of lot A has only that one lot. A higher tax on A because it is the larger lot would be absurd. The large land owner, provided he distributes his holdings, would pay lower rates of taxation than the small land owner whose holdings are massed together. The only result of this would be a tendency to divide land into fractional parts.

It is true that such a method of taxation would tend to split up large estates. This was indeed one of the avowed objects of the graduated land tax in New Zealand, whose influence is already perceptible. The same idea is at the basis of the recent land tax legislation in Oklahoma, where the aim is to prevent the formation of large estates. The division or prevention of large estates, however, does not necessarily mean the abolition of large fortunes in landed property. It may indeed tend to prevent the successful competition of an agricultural country with its rivals in the world market, to the extent that cheap wheat raising depends on the economies of production on a large scale. There is no reason, however, why one man should not own a hundred small farms, rented out by him to cultivators, instead of a single large farm. Progressive land taxation would therefore not necessarily result in the

development of a class of small independent farmers or peasant proprietors. Small farms do not imply small independent farmers; they may mean small tenants or farm hands of a large farmer or a large landed proprietor. However, in the case of city real estate, where the chief complaints against the unearned increment are urged, there is but little doubt that large landowners would distribute their holdings. The net economic result of a progressive property tax levied on the land, instead of on the landowner, would thus be in the first place a change in the constitution of land fortunes rather than in their extent; and in the second place a probable diminution in the capacity of the country to compete in the markets of the world. But the fiscal results would be insignificant. Ultimately the tax would tend to be levied only on the lowest class. For no plot would now exceed in size the smallest area on which the lowest rate is assessed. In other words, the progressive tax would virtually turn out to be a proportional tax. A progressive tax on land is not necessarily a progressive tax on the landowner.

Considering, therefore, these four objections, it is plain that until a complete change is made in our system of the general property tax, it would be useless and worse than useless to introduce the progressive principle. We should be jumping from the frying pan into the fire.

## § 2. *The Income Tax.*

We come next to the income tax. The income tax in the United States was until recently not a practical question. The few existing income taxes in our American commonwealths are even more farcical in their administration than the general property tax. It is utterly idle to suppose that the latter will be supplanted by the former, or that any better results could be obtained by attempting to assess a man directly on his income rather than on his property. For some kinds of property at all events are tangible, while the income even from tangible property is frequently more or less uncertain and inscrutable. At the same time recent events have shown that a federal income tax, either as a war measure, or as a tax supplementary to the existing sources of revenue, is within the range of practical politics. In this case it would perhaps seem that the progressive principle might not illogically be applied in the future, as it has been in the past. We might base the demand, so it might be urged, not only on the general economic theory of faculty, but also on the special compensatory theory. For, as we know, one need have no socialistic leanings to advocate the special compensatory theory. It will be remembered that Secretary Fessenden advocated the progressive income tax during the Civil War on the faculty theory,<sup>1</sup> while on the European continent it is generally upheld on the special compensatory theory. The practicability of a graduated scale, however, depends to some extent on the methods of assessment and the extent of foreign investments. Where a large part of the income received by the citizens is derived

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<sup>1</sup> See above, p. 102.

from capital invested abroad, not only will the ascertainment of income be more difficult, but all the possible complexities of a double taxation will be introduced. Where, on the other hand, the income is derived chiefly from home sources, the problem will be simpler. From this point of view a progressive income tax would probably be attended with more difficulties in England than it would be in many other countries whose holdings in foreign investments are less extensive.

A far more important consideration, however, is the actual form of the income tax itself. This is evidently not the proper place to discuss the details of income taxation. It may be well, however, to recall the fact that there are two chief methods of assessing an income tax. The one method as exemplified in the most successful of all income taxes—the English—is to split the income into schedules, according to the source from which it is derived, each schedule or set of schedules being assessed separately by different officials. This may be termed the schedule or stoppage-at-source income tax. The other method, as in the Prussian tax and the American taxes during the Civil War, is to assess the income as a whole in a lump sum and to levy the tax directly on the income receiver, instead of in the first instance on the income payer. This may be called the lump-sum income tax. It is what the French call *l'impôt global*.<sup>2</sup> Experience has shown that the schedule tax is far preferable to the lump-sum tax. England after experimenting with the latter long since abandoned it for the former. Yet it is plain that the progressive rate is very much more difficult of application to the schedule, than to the lump-sum, in-

<sup>2</sup>The British income tax committee of 1906 calls it the system of "direct personal assessment" as opposed to the "system of collection at the source."

come tax. If an income is derived in equal proportions from each of, let us say, five sources or schedules, it would pay much less than an equal income derived wholly from any one source. Let us assume that the progressive scale is so arranged that the rate is fixed at two per cent for \$10,000, and that it increases one per cent for each successive \$10,000. A has an income of \$50,000 derived equally from each of five sources. He will pay the normal rate, or two per cent, on each schedule; that is, his tax will be five times \$200 or a total of \$1,000. B has the same income which happens to be derived entirely from one source or schedule. He must pay six per cent on \$50,000 or a total of \$3,000. An ostensible progression of rates would thus result in the same amounts of income paying very different amounts of tax. Such an inequality would be intolerable.

We are thus reduced to the dilemma: A progressive income tax corresponds to the demands of ideal justice; but a lump-sum income tax, at least in Anglo-Saxon countries, is in practice more or less of a failure; and a schedule income tax is not susceptible of graduation. The desirable, therefore, is not practicable; that is, it is practically undesirable. In other words, a really successful progressive income tax is an infeasibility.

The British Select Committee of 1906 seeks to circumvent the difficulty by the ingenious expedient of what it calls a "super-tax." On the one hand the Committee is quite resolute in its determination not to abandon the stoppage-at-source features of the tax, stating that "direct personal assessment for the whole tax is not practicable in this country in the sense of being an expedient or desirable means of collecting revenue." On the other hand, however, it regards favorably the plan of imposing "a

second tax, distinct and supplementary to the existing tax, to be levied on investments by direct personal assessment." This, which is called the "super-tax," is to be assessed only on persons with incomes over £5,000, and may, if desired, be graduated. The Committee recognizes that this new tax is open to the objections that may be urged against any lump-sum income-tax scheme. It thinks, however, that the interests of the exchequer will be protected by the retention of the stoppage-at-source feature.<sup>3</sup> It believes, furthermore, that the dangers of evasion will gradually be reduced to manageable proportions.<sup>4</sup> The

<sup>3</sup>"It will be seen that this is a combination of the method of a direct personal tax with that of taxation at the source. That portion of the tax which is new and additional would be a direct personal tax, and some of the objections which have already been urged against the adoption of a direct personal tax in place of the system of collection at the source apply to this proposal. They are modified, however, to the extent that the tax which is now collected at the source would continue to be so collected, and consequently there would be no loss of revenue there as the result of failure to obtain full disclosure for the direct personal tax." *Report from the Select Committee on Income Tax, 1906*, sec. 8, p. 4.

<sup>4</sup>"This proposal, in common with all proposals for direct personal assessment of the whole income, requires that a full statement of individual net income should be obtained from all persons upon whom the super-tax would be levied. It is true that, at the present time, about 700,000 persons do make a declaration of the amount of their net annual income. They are people with a total net income not exceeding £700 a year, and they make the declaration in order to obtain the abatement which the law allows upon such incomes. But it does not follow that other people with much larger and more complicated incomes would be equally willing to declare their actual income, when the object for which the declaration was required was that an additional tax should be levied upon them. It is one thing to require that information must be given before taxation can be reduced. To demand the information with a view to increasing the taxation of those who supply it is totally different.

The difficulty of discovering who had an income of £5,000 a year or more and ought to make a return has been insisted upon by several of the official witnesses. But we think that the difficulties have been exaggerated. In most parts of the country the surveyors

Committee concludes that while the system of graduation through the imposition of a super-tax is practicable it offers some disadvantages and difficulties which have here been pointed out.<sup>5</sup> Whether the difficulties can be overcome will be watched with interest when the scheme itself is adopted, as it probably will be before long, by Parliament.

In the American income tax of 1894, which was soon declared unconstitutional, the system was essentially the undesirable and discredited lump-sum of personal-income plan. In one point, however, the stoppage-at-source idea was introduced. Corporations were directed to pay the income tax on stock and bonds, and to withhold the amount of the tax from dividends or interest. Had a progressive tax been imposed, it would have been necessary to levy the highest rate on all dividends or coupons. For if the lowest rate were levied on, let us say, \$10,000, it is plain that every one would split his corporate holdings into blocks of \$10,000, and invest each of these in a different corporation or assign interest in his holdings to dummies or obscure relatives. If, on the other hand, the highest rate were levied on all corporate holdings, it would lead to crying injustice unless individuals were allowed a rebate amounting to the difference between the highest and the lowest rate, whenever they could swear that their entire income fell within the limit at which the lowest rate was imposed. As soon as such an oath, however, was permitted the whole advantage of assessing incomes at the source would disappear, and the door would be opened to all frauds inseparable from a personal or

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of taxes would probably know who are likely to be enjoying large incomes. There would also, no doubt, be difficulty in checking the accuracy of the declarations. Here again, time would be required." *Report from the Select Committee, etc., page 4, sections 9 and 10.*

<sup>5</sup> *Op. cit.*, paragraph 11.

lump-sum income tax. The whole machinery of assessing the tax to the corporation in the first instance might as well have been abandoned. Congress accordingly acted correctly in refusing to accept the proposed amendment in favor of a progressive scale. The serious mistake,—not to mention minor points like the exaggerated minimum of exemption,—was the adoption of the personal lump-sum scheme instead of the scheduled or stoppage-at-source plan. That is a point, however, which does not directly affect the present discussion.

Our decision must therefore be adverse to the application of the progressive scale to income taxes under actual administrative conditions in the United States. The advantages of graduation turn out on closer inspection to be illusory.

### § 3. *The Corporation Tax.*

In regard to the corporation tax the progressive, or rather the degressive, principle has already been applied in some of our commonwealths.<sup>1</sup> From one point of view these progressive rates may indeed be defended. The larger the earning capacity of the corporation, the more valuable are the privileges received from the state and the greater are its chances of successful competition with smaller rivals. This implies the production side of faculty. It is highly questionable, however, whether the more important consumption side of the faculty theory is applicable to corporations. A corporation is nothing but a fictitious entity, a juristic personality. It has no wants, no desires of varying urgency. We cannot properly predicate of it any equality or inequality of sacrifice. When the state taxes the corporation, it really seeks to tax the owners of the corporation, that is, the bondholders as well as the shareholders. It is not the corporations as such, but the individuals whose capital is invested in the corporation, who are the real taxpayers. When we speak of the principle of equality of taxation, we ordinarily mean equality as between individuals. A corporation is simply an association of individuals, to each of whom the fiscal test of equality must be applied. This is evident from the fact that the tendency in all those states which endeavor to avoid double taxation is to exempt from the personal property tax the shareholders of corporations which are already taxed on their capital stock.<sup>2</sup>

<sup>1</sup> See above, pp. 111, 112.

<sup>2</sup> See the chapter entitled "The Taxation of Corporations" in Seligman, *Essays in Taxation*, and especially Francis Walker, *Double Taxation in the United States*, in *Columbia Studies in History, Economics and Public Law*, vol. v, no. 1, 1895.

There is no necessary connection between the total earnings of a corporation and the total earnings of a shareholder. In the first place the small corporation may be owned by a few shareholders, while the stock of the large or more successful corporation may be distributed among hundreds or thousands of individuals. A progressive rate on the larger or more successful corporation might then involve an actually regressive rate on the shareholders. The rich stockholder in the small road would pay not more, but less, in proportion than the poor stockholder in the large road.

Secondly, even assuming that the stockholders have equal shares in the two roads, we know nothing about their other sources of income. If all income were derived from corporate property alone, the matter would indeed be simple. In the existing complexity of industrial relations, however, the revenue from corporate holdings may constitute the entire subsistence of one man, and an insignificant fraction of the total income of his neighbor. The faculty theory of taxation, especially from the consumption side, can be predicated only of the entire income of an individual. A progressive tax on larger corporations, then, is quite as likely to be a regressive rate on the particular stockholder. Instead of having progression we should have "upside-down" progression. Only on the assumption that the progressive rate is applied to all incomes and to all other forms of property as well as to corporate income or property, would this objection be removed. Even then, however, the force of the first objection would not be diminished. Moreover, when we bear in mind the complications introduced by the facts of double taxation, due to the lack of harmony in our various commonwealth laws, the difficulties will be sensibly increased.

A progressive corporation tax, then, does not neces-

sarily mean a progressive tax on the individual shareholders, and still less does it imply a progressive tax on the individual bondholders. It may denote just the reverse. The application of the progressive principle to corporations is therefore of dubious expediency.

#### § 4. *The Inheritance Tax.*

The case is quite different, however, with the inheritance tax, a term commonly applied not only to inheritances proper, but to successions of any kind, whether by gift, devise, bequest, or devolution in general. The two most significant developments in recent American finance are the growth of the inheritance tax and the extension of the corporation tax. In some commonwealths the entire state revenue bids fair soon to be derived from these two sources alone, thus greatly simplifying many of our perplexing problems. The clamor for a progressive rate in the inheritance tax is constantly growing in the United States, and we have repeated examples of graduated succession duties.<sup>1</sup> It has already been noted that writers like John Stuart Mill, who are most conservative in their opposition to progressive taxation in general, nevertheless uphold the progressive principle in the case of inheritance taxes.

There are three arguments on which it is possible to base progressive inheritance taxes. The first argument is that which rests on the limitation-of-inheritance theory. The tax is regarded by some merely as a limitation upon the legal privilege of inheritance imposed by the state in the public interest; with the further qualification that it is the duty of the state to check the growth of inordinately large fortunes and to favor the diffusion of wealth. The progressive principle would be the most convenient way of attaining this result.

This argument, however, is not entirely beyond question. For even if we adopt the theory that the tax is to be

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<sup>1</sup> For an exhaustive discussion of the inheritance tax, see Max West, *The Inheritance Tax*, in *Columbia University Studies in History, Economics and Public Law*, iv, no. 2, 2nd ed., 1908.

regarded as the exercise of the state's power to regulate the privilege of inheritance, it does not follow that the state is under any obligation to redress existing inequalities in fortune. The state has, indeed, the right and the duty to put all on an equal plane of competition, and, with this end in view, it may enact laws which, although they seemingly restrict individual action, actually confer upon the members of society a wider and more real liberty. This is a very different thing, however, from settling upon an arbitrary limit beyond which the amassing of wealth is to become illegal, and from using the expedient of the progressive scale in order to attain this end. The whole question, however, depends on the limits that we assign to the family idea of property. As Dr. West has well pointed out, the right of inheritance within the family is already greatly restricted by the freedom of bequest, while on the other hand inheritance and bequest are not only far from being natural rights, but are not even necessary consequences of the rights of private property.

The second argument is that which we have learned to know as the economic argument. This is more convincing, because it is based on a sounder theory of the inheritance tax itself. According to this view, an inheritance, using the word in the wider sense, is simply a fortuitous income, a chance accretion to property, which augments the faculty of the individual and which, just because of its accidental or unearned nature, is a most fitting subject of taxation. For since income connotes a regular periodical revenue the inheritance would normally not be affected by an income tax;<sup>2</sup> and since the general

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<sup>2</sup>The income tax section of the tariff bill as passed by the House of Representatives in January, 1894, curiously enough contained a clause by virtue of which inheritances and successions were to be considered a part of the annual income. This would have tended to create much confusion.

property tax is ineffective in its operation, the taxation of inheritances constitutes the best method of reaching the property, even if it is reached only once. All the considerations already urged, which apply to the progressive taxation of faculty, whether we find the test of faculty to consist in income or in property, apply with equal force to the inheritance tax. From the standpoint both of production and of consumption, true equality in taxable faculty means progressive taxation of inheritances. Moreover, scarcely any of the objections which attach to the progressive rate in the general property tax applies here.

The third argument is what we have termed the special compensatory argument. This alone would suffice even if the other arguments were inadequate. For even granting that proportion is the ideal to be kept in view, it may be said with some measure of truth that our existing taxes fall with less severity on the wealthier classes. Not only are many of our indirect taxes regressive in their nature, but the general property tax, in its practical operation, is scarcely less objectionable in this respect. A progressive rate in the succession duties, especially where personality is concerned, would simply tend to reestablish the desired proportionality. Advocates of general proportional taxation in theory might, therefore, uphold progressive inheritance taxes in practice.

Perhaps the most vigorous defense of the progressive principle is to be found in a recent official report which shows so clearly the present temper of the American people that we venture to make a liberal extract:

"Whatever the economic theory upon which we may support the idea of an inheritance tax at all—whether we believe in the theory that the state is entitled to a share in the estate of a decedent for the reason that it surrenders its right to take the whole estate to itself, or for the reason that it supplies the means and protection by means of which the deceased can distribute his property, or whether we adhere to the back-tax theory, or to the diffusion-of-wealth theory, or to the

accidental-income theory—we all agree that it is not unreasonable that a larger percentage of a large fortune should be paid to the state than of a small one. The man who saves a little can, if he sees fit to do so, keep it in ordinary circumstances about him and distribute it virtually in person among those whom he wishes to have it after his death; but one of our modern enormous fortunes must almost necessarily be invested far and wide in enterprises of every description, with branches all over the country. The possessor of such a fortune has never seen most of it; it is represented to him, in a large part, by a safe deposit box full of certificates of stock, bonds, contracts, mortgages, etc. The whole power of the state is essential not only to guard and to protect his interests, but to distribute them after his death. More than that, it was the state itself by its laws granting to individuals of great ability and force free sway to exercise their powers and to make them productive, which gave them scope and opportunity to accomplish the enormous results which we see to-day. While it is true, therefore, that ability and vigor were necessary to accomplish the end, the great results achieved could never have been attained without the active assistance and protection of the state; and this assistance and protection are more necessary to the amassing of a great fortune than of a small one.

This conception of the social aspects of private wealth has made great strides in recent years and is now recognized by not a few of our wealthy citizens themselves. Mr. Andrew Carnegie, in a recent and striking speech at a meeting of the National Civic Federation, in New York in December, 1906, said, after describing the growth of many of the large fortunes of the country: 'Now, who made that growth? The growth of the American Republic—that is where that wealth came from and that is the partner in every enterprise where money is made honorably; it is the people of the United States. . . . I say the community fails in its duty and our legislators fail in their duty if they do not exact a tremendous share, a progressive share.'

It is largely for some such reasons that it seems to your Commissioners that a great fortune may well be expected to contribute a greater percentage to the state when it passes to others than a small one. Your Commissioners believe that a graduated inheritance tax is defensible, not so much on the ground that large fortunes are a menace to the public, as on the theory that the ability to contribute to the support of government grows more rapidly than the amount of the fortune or the size of the estate."<sup>8</sup>

<sup>8</sup>*Report of the Special Tax Commission of the State of New York, 1907, pp. 10-12.*

### *§ 5. Other Taxes—Conclusion.*

As we have learned above, there are other taxes to which the principle of progression might be applied. The ultimate form which taxation in America is to assume is already discernible. National revenues in the future, as to a great extent in the past, will be derived from a well considered system of indirect taxes, possibly supplemented at intervals by some form of a constitutional income tax. State revenues will be derived almost exclusively from corporation taxes and inheritance taxes; while real estate will be relegated to the local divisions. The one difficult point will still be the complete taxation of individual faculty. The taxation of intangible personality has always been a failure; a direct tax on income would not succeed a whit better. Yet the question will continually revert as to how it will be possible to reach the entire individual faculty. The real estate tax indeed will reach one portion of this faculty, the corporation tax generalized and corrected will reach another large portion, and the inheritance tax will greatly lessen the inequality resulting from the non-taxation of other elements of faculty. The gap, however, will not be entirely filled and it can be removed only by some forms of taxation which will indirectly and roughly it is true, but none the less surely, reach those earnings which are derived neither from land nor from corporate holdings. Such earnings are chiefly those from business and from personal exertions. It is highly probable, therefore, that the future system, based upon complete interstate comity and the avoidance of double taxation, will include some attempt to reach these earnings either through a taxation of rentals, both business and private, like that existing in

France, Canada and Australia, or through a more skillfully devised mode of business taxation. When these supplementary forms of taxation are created, to replace, in good part, our unworkable tax on intangible personality, it may be found that both the economic and the special compensatory theories will serve as the bases of a moderately progressive system. But in the latter tax especially, the graduation may be more ostensible than real, because of the very rough approximation to actual taxable capacity.

The general conclusion of our investigation may now be put in summary form. It is to the effect that while progression of some sort is demanded from the standpoint of ideal justice, the practical difficulties in the way of its general application are well nigh insuperable. Progression is defensible only on the theory that the taxes are so arranged as to strike every individual on his real income. In default of a single tax on incomes, however, which is visionary, practicable tax systems can reach individual incomes only in an exceedingly rough and round-about way. Under such practical conditions it is doubtful whether greater individual justice will be attained by a system of progression than by the simple rule of proportion; and it is highly questionable whether the ideal advantages of progression would not be outweighed by its practical shortcomings. For the United States at all events, the only important tax to which the progressive scale is at all applicable at present is the inheritance tax. For the future development of the idea we must rely on an improvement in the tax administration, on a more harmonious method of correlating the public revenues and on a decided growth in the alacrity of individuals to contribute their due share to the common burdens.

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